THE Business History REVIEW

Books Reviewed

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Norman Scott Brien Gras, 1884-1956

Professor Gras himself often wrestled with the practical problem of providing suitable inclusive dates for phases of historical development. He accepted the necessity for the chronological markers raised by historians, but he mistrusted those markers and often challenged their location. He would probably have been skeptical of an assertion that the span of his career at the Harvard Business School served to delimit an era in business history.

And yet, the temptation to draw some such conclusion is overwhelming. The deep sense of personal loss that the news of Professor Gras' death on October 9 brought to his friends was linked with a strong realization, shared by many, that an era had ended. Perhaps, as Professor Gras himself seemed to believe, it had been ending for some time, and a new phase was already well launched.

It is too soon, perhaps, to attempt precise measures of what N. S. B. Gras did, or to appraise what he wrote. Neither is it appropriate, since most of the essential facts are known and already have been recorded, to present here in fine detail the story of his career in business history. Those who worked closely with him, however, realize that some things should be said, not in a eulogistic way but to further the understanding of a man whose professional influence ranged far beyond the circle of associates who were familiar with the pressures that shaped his thought and scholastic life.

When, in 1927, Professor Gras was appointed to the Faculty of the Harvard Graduate School of Business Administration to teach business history, that subject existed only as a course name in the curriculum. Dean Wallace B. Donham had come to believe that men being trained for work in business should be given some historical perspective on their profession as business administrators, and he prevailed upon Macy's Straus brothers to endow a chair in business history. But neither the Dean nor anyone else had any specific thoughts on what a course in that subject should contain.

Professor Gras was chosen for the post because he had demonstrated considerable interest in the history of business in his work at

Minnesota, where he was teaching in the Department of Economics and Business. This interest was partly owing to personal and local circumstance, but it had a strong intellectual base in the work of certain economic historians – notably Unwin, Ehrenberg, and Sombart.

While Dean Donham had given to business history a name, an idea, and strong institutional support, it was Professor Gras who charted the new field and marked it as something different from economic history. The emphasis of the Harvard Business School was on administration, and the new course in business history had to be set forth in terms that had meaning for the business administrator. Moreover, teaching at the School was by the case system, in which materials for discussion were drawn from actual business situations. While Professor Gras could supply background materials from his wide knowledge of economic history, he was under compelling necessity to seek new material from business – from the actual records of individual firms and executives. Thus the case system, the emphasis of the School on administration, and the opportunity the School afforded for observing the constant interplay of dynamic conditions in society all were important elements in the development of the new subject.

From the beginning, the subject was broadly conceived. While actively engaged in the collection of case evidence, Gras sought constantly to formulate a theoretical framework that would embrace observed realities. He was keenly interested in all kinds of business, ancient as well as modern, and he looked unceasingly in the accumulating data for evidence of patterns. The group discussions he organized at his office in Baker Library were devoted to broad contemplation and were attended by scholars from other fields of interest. The launching, in 1928, of the *Journal of Economic and Business History* and the type of articles there published evidenced a quest for greater knowledge of individual business units, an interest in the relation of the firm to its environment, and an appreciation of the essential interdependence of economic history and business history. At the same time, his active promotion of the Business Historical Society helped enlist the interest of businessmen in his work and relate that work to vital business issues of the day.

Having formulated from scattered available evidence a set of concepts about stages of capitalism and patterns of secular trend, Gras sought additional information to support or refute those concepts. To this extent his approach was clearly deductive. Very early, however, he came to feel that the scholar's knowledge of

business was so meager that there was real doubt whether the most important questions were being asked. Attempting, on the one hand, to answer questions already posed, Gras by inductive methods simultaneously sought, on the other hand, to unearth new questions. This bilateral approach to business history was a unique and exacting challenge. The broadly conceived basis of business history tended to be obscured by the fact that the immediate common requirement of both deductive and inductive approaches was greater knowledge of the behavior of business units. As a practical matter, a great deal of Professor Gras' time came to be spent in getting to know business. Beyond this was the even more prosaic necessity for learning how to gain access to and employ business records.

Thus, the years from 1927 to 1939 were full of searching – for new answers to old questions; for evidence that would suggest new questions; for answers to new questions. Culmination of the formative period in business history took the shape of *Business and Capitalism*. The volume was experimental. It was written with full realization that supporting evidence was fragmentary. It was written with courage, out of conviction that the time had come for a statement of thinking to date. It reflected the pressures of perhaps the most turbulent decade the American businessman had yet experienced. It stimulated rather than calmed the intellectual controversies in which business history was enmeshed, but it served, and serves, as a beacon.

Out of the dozen years emerged some major contributions. Professor Gras, not alone but certainly among the foremost, breeched the barrier of misunderstanding and suspicion between the businessman and the historian. He established a pattern of objectivity and formulated the stringent groundrules for achieving that objectivity. He, with others, literally saved the records of American business from the fire. At a time when money was scarce and social science research was not a fashionable philanthropy, he was responsible for the channeling of thousands of dollars into historical investigations. Meanwhile, he taught.

Paradoxically enough, it was as a teacher that Professor Gras received the lesser notice from his academic associates. This may have been because his students went, with few exceptions, into business rather than academic life – an inevitable consequence of the predetermined School environment and of the then almost nonexistent opportunities for a rewarding career in business history. Yet Gras was a gifted teacher, and it was in the classroom where his true beliefs most clearly were revealed. Here the narrow was

lucidly drawn upon to support the broad. The individual firm receded and patterns emerged. Stunning generalizations shocked students to challenge, and to think. Barbs of wit and, sometimes, satire impaled important concepts upon student minds. The excitement of ideas then new often charged the air. No theory, institution, or individual was too sacred to escape piercing scrutiny, but some of Professor Gras' most monumental skepticisms were tempered by a twinkling eye or a scholarly admission of counter arguments. Student viewpoints were not merely tolerated but solicited with respect, and Gras learned much while he taught. The ultimate impression carried away by his students was not of particular facts or theories but of the long-term interplay of massive forces that was business. They left, stimulated and curious, vividly aware of vital questions still to be answered. They also left with profound admiration, certainly for Gras' classic breadth of scholarship but also for his knowledge of business and his penetrating comprehension of the motivations of the businessman.

In the years following 1940 work pressures outside the classroom mounted steadily. Business history spread, prospered, matured. New studies multiplied; data piled up faster than it could be assimilated. The exploratory, experimental phase of work that commenced in 1927 was drawing to a close and the time for synthesis, revision, and reorientation, toward which Gras had conciously been pointing his efforts since the start, was at hand. Amidst growing demands upon his time, Gras clung tenaciously to a work pattern evolved in an earlier, less trying environment. Forsaking the office at noon each day, he trudged, briefcase in hand, across Larz Anderson Bridge to disappear into the Craigie Street study. But it was new research opportunities to which he gave most of his energies, laying aside for a time that never came the final recording of observations accumulated in a lifetime of study.

Regret for what may have been lost is diminished because so much was achieved, and among the achievements business history itself must be numbered, together with the respect of a generation of scholars and the affection of those who were privileged to know the man.

By Werner Baer
TEACHING FELLOW IN ECONOMICS
AT HARVARD UNIVERSITY

The Promoting and the Financing of the Suez Canal

This timely account of the launching of the Suez Canal project reveals both sides of the coin of innovation. It is, on the one hand, a study of the character and methods of one of the most famous innovators of the nineteenth century. Ferdinand DeLesseps was not a politician, a financier, an engineer, a promoter (in the common sense of the word), or a businessman. Yet he succeeded brilliantly in a venture requiring consummate mastery of all these professional fields. On the other hand is revealed the waterway itself — vital to one civilization, useless and neglected in another, and then of transcendent importance as world history marched on. Realization of the grand scheme envisaged by the Pharaohs came at last when economic and political factors momentarily aligned in a pattern of opportunity for a unique set of entrepreneurial qualifications.

Historical Perspective

Tradition holds that the idea of establishing a connection between the Mediterranean and the Red Sea was originally conceived by the Pharaoh Ramases II of the Twelfth Dynasty (about 1400 BC).[1] It was Pharaoh Necho (612 BC), however, who actually got started on the digging. Necho's efforts were thwarted when over 120,000 slaves died because of unsanitary working conditions, and it was the Persian ruler Darius Hystaspes (521–486 BC) who finished the work. Instead of linking the two seas directly, the canal connected the Nile River with the Red Sea and was intended chiefly to facilitate the transport of supplies from Punt (modern Somaliland) to Egypt.

For the ensuing 900 years the history of the waterway fluctuated, according to the whims of succeeding rulers, between use and

[1] Charles W. Hallberg, *The Suez Canal* (New York: Columbia University Press, 1931), pp. 25-26. For this historical account I have used books actually dealing with the Suez Canal, but which also give a historical account. The information is often contradictory. I have not gone to more purely historical sources. For the reader interested in more reliable details, I would suggest the consultation of works by Cledat, Bourdon, and Breasted. For sources, consult works of Herodotus, Aristotle, Strabo, and Pliny.

neglect. Proposals to cut a direct route from sea to sea were vetoed by the belief that the level of the Red Sea was so much higher than the Mediterranean that a canal would flood the countryside. Finally, in the eighth century, the so-called Canal of the Prince of the Faithful was closed by a Caliph in order to prevent supplies from reaching the rebellious cities of Mecca and Medina.[2] After that time, commerce between East and West through Egypt declined steadily and the route attracted little patronage.

For a long time even the idea of a connecting link between the two seas remained in oblivion. It was revived by the Venetians in 1504 when the Council of Ten was seriously discussing the possibility of suggesting to the Sultan of Egypt the cutting of a canal, but the idea was dropped. This event was one of the first evidences that interests outside of Egypt were becoming aware of the advantage of the waterway to their commerce.[3] The French were next to turn their attention to the ancient canal route.

From the sixteenth century on, France occupied an increasingly dominant position in the Eastern Mediterranean. Because of geographical factors, she had a greater interest in a commercial route through Egypt than England and Holland, who contented themselves with and dominated the Cape route. The increasing awareness of the potentialities of a canal was fostered by the growth in trade with India in the eighteenth century. Official French action in Egypt was slow to develop, however, although agents and merchants constantly advocated the French possession of the territory. Instead of contemplating annexation, the government contented itself with treaties negotiated with the Beys, giving merchants transport facilities through the country. Yet the general tendency of these treaties was such that men like George Baldwin of the British Levant Company wrote: [4]

> France, in possession of Egypt, would possess the masterkey to all the trading stations of the earth. Enlightened as the times are in the general arts of navigation and commerce, she might make it the emporium of the world; she might make it the awe of the Eastern world, by the facility she would command of transporting her forces thither, by surprise, in any number and at any time; and England would hold her possessions in India at the mercy of France.

Diplomatic interest in the commercial potentialities of Egypt reached a peak in Republican France. In 1793 young Napoleon

[2] Hugh J. Schonfield, *The Suez Canal In World Affairs* (London, 1952), pp. 4-5.
[3] *Ibid.*
[4] *Ibid.*, p. 9.

wrote Talleyrand: "The time is not far distant when we shall feel that in order to destroy England it is necessary for us to possess Egypt." Talleyrand was more impressed by the dispatches of the French Consul-General in Egypt, Charles Magallon, who was stressing the same idea from the commercial angle. In 1798 an expedition to Egypt under Napoleon's command was launched with the following instructions: "The Army of the East shall take possession of Egypt. The commander-in-chief . . . shall have the Isthmus of Suez cut through, and he shall take the necessary steps to assure the free and exclusive possession of the Red Sea to the French Republic. . . ." [5]

Napoleon took England completely by surprise when he landed his forces at Alexandria and occupied the country. The preliminaries for cutting the canal were immediately started and the engineers and scientists who had come along were sent out with the troops. Napoleon took personal interest in the project and led the party tracing the old Nile-Red Sea canal route. The famous engineer J. M. Lepère, who was in the party, reported later against cutting a direct canal because he was convinced that the Red Sea was more than thirty feet higher than the Mediterranean, and proposed a canal along the line of the old Canal of the Pharaohs. He estimated that the project would occupy 10,000 men for four years and would cost 1.5 million pounds.

These vast plans were terminated in August, 1798, by the Battle of the Nile and the destruction of the French fleet by Nelson in Aboukir Bay. At the end of this misadventure Napoleon is reputed to have told his engineers: "The work is great, and though I shall not now be able to accomplish it, the Turkish Government will some day, perhaps, reap the glory of the enterprise." [6]

With the Peace of Amiens in 1802 the territorial ambition of France in Egypt came to an end, so also did the interest of the government in direct action for a route through Egypt. But the idea continued to inflame the imagination of engineers, scholars, merchants, and a great segment of the enlightened population.

The Growth of the Idea

During the first half of the nineteenth century active interest in the construction of a canal had shifted from the government to private groups. The most conspicuous of these were the Saint-Simon-

[5] Hallberg, *op. cit.*, pp. 62–65.
[6] Olivier Ritt, *Histoire de L'Isthme De Suez* (Paris, 1869), Chapter III.

ians, who considered it a part of their over-all program in "the redemption of human society through the dignity of labor." Saint-Simon's successor, Enfantin, organized on November 27, 1846, the *Société d'Etudes du Canal de Suez*, whose aim it was to make a complete study of the financial and technical problems involved in constructing the canal and to enlist the support of capitalists all over Europe to get the enterprise under way. Plans of Linant Bey were used as a basis for their work. Bey, in the service of the ruler of Egypt, Mohammed Ali, had already prepared a detailed scheme for a canal in 1841. Among the outstanding engineers participating in the study group were an Austrian, Negrelli, whose job it was to find a suitable site for an entrance from the Mediterranean; an Englishman, Robert Stephenson (son of the inventor), who studied the port of Suez; and a Frenchman, Paulin Talabot, who covered the ground between. Although the group did not succeed in its object because of political difficulties and the lack of the Egyptian Viceroy's support, its work paved the way for the man who would ultimately succeed. One important result of the survey was the definite proof that a canal was feasible and that differences in sea level were nonexistent. After permitting Negrelli's participation in the Enfantin project, Metternich made an interesting comment: [7]

> But it is just this circumstance — the failure of communication, which will in my opinion render the success of the plan doubtful. The English Government not only will not permit it, but, on account of British commercial interests as well as military-political considerations, will prevent it with all the means it commands. . . . A private company will not be allowed to bring the project into life without the assistance of the governments whose harmony is indispensable for its promotion . . . .

The observations of Metternich were well-founded, for it was failure to gain backing that caused the *Société d'Etude's* downfall, while British opposition proved a major obstacle to the next promoter of the Suez project, Ferdinand DeLesseps.

DeLesseps was born in 1805 into a family of diplomats. His father had been the French Consul-General in Egypt and had helped Mohammed Ali come to power. Ferdinand followed in the footsteps of his family. It is said that upon arriving in Alexandria to take over one of his earlier posts as Vice-Consul, he was quarantined for a time on his vessel and spent the time reading. One of the books he examined was Lepère's report on the proposed canal. Apparently his imagination was fired by this grandiose scheme and

[7] Hallberg, *op. cit.*, pp. 93–94.

he determined to study the subject further.[8] While in Egypt DeLesseps also struck up a friendship with the son of Mohammed Ali, Mohammed Said. DeLesseps left his post in 1837, after having become very popular both in the European colony and in Egyptian society.

DeLesseps' diplomatic career was ended abruptly in 1849 by political difficulties and he retired for five years to his estate, where he studied "everything connected with the relation of the Occident to the Orient." In 1852 he sent a memoir on the subject of a canal to Ruyssenaers, Dutch Consul-General in Egypt, asking him if he thought the plan would be acceptable to Abbas Pasha, the Viceroy. The reply was that it would be to no avail to expect Abbas even to entertain such a scheme. But in 1854 fortunes changed; Abbas died and was succeeded by Mohammed Ali Said Pasha, DeLesseps' friend. Upon receiving a letter of congratulations from DeLesseps, Said Pasha invited him to Egypt. There, one day, DeLesseps presented his plan for a canal to Said, who was impressed. A concession was signed on November 30, 1854, which authorized DeLesseps to form an international company under his own direction, the *Compagnie Universelle du Canal Maritime de Suez.*[9]

The concession was brief. It stated that the director of the company was always to be named by the Egyptian government. If possible, he was to be selected from among the largest shareholders, who would thus be accorded a direct voice in management. The concession was fixed for 99 years from the date of the opening of the canal. All the land for the building of the canal was to be granted free of charge. The profits were to be apportioned in the following manner: 15 per cent to the Egyptian government; 75 per cent to the shareholders; and 10 per cent to the founders. A further 5 per cent from the shareholders' profit was to be divided so that 3 per cent would go to the administrators and 2 per cent to the employees. It was also stated that the tolls charged would be equal for all nations making use of the canal. Another article stated that the project stipulated would be a direct canal; this protected DeLesseps against any rival schemes that might be brought up.[10] A second act of concession in January, 1856, supplemented the

[8] Alph. Bertrand et Emile Ferrier, *Ferdinand DeLesseps, Sa Vie, Son Oeuvre* (Paris, 1887), Chapter I.

[9] Hallberg, *op. cit.*, p. 116; Schonfield, *op. cit.*, pp. 22–24.

[10] Percy Fitzgerald, *The Great Canal at Suez* (2 vols.; London, 1876), I, Chapter II; also Hallberg, *op. cit.*, pp. 118–20.

original one and was more formal and specific as to who would work on the canal, taxes, etc.

The Ouvertures

From the granting of the first concession, DeLesseps stepped into the role of the entrepreneur, par excellence. He was the man with the vision, and now he would have to marshal the forces needed to make that vision a reality. The immediate factors of concern, however, were not physical equipment, manpower, and scientific know-how, but the more elusive requisites, support and money. DeLesseps' search for capital was to consume four years. Before he could get money he had to have support from three basic sources. First, he required the backing of governments, since the canal was to be constructed on an international basis. Second, he had to have the backing of prominent men, such as scientists and engineers. Most important of all, he needed international public support, because ultimately it was world opinion which would be most useful in convincing governments to support the project.

The first task which faced DeLesseps was entirely political. The French government was favorably inclined, but it would give no official support. The reason for this was that England was known to be opposed to a canal (in order to protect its own Cape route and a rival railroad scheme) and France was allied with England in the Crimean War. Hence France was forced to regard the project as a private affair.

DeLesseps had to get the endorsement of the Sultan in Constantinople, who still had authority over Egypt. Negotiations were thus transferred to that city, where the British were very influential. The British ambassador, Lord Stratford de Redcliffe, who completely dominated Reshid Pasha, took it upon himself to use his influence to obstruct DeLesseps' project. In February and March, 1855, he successfully prevented the Sultan from giving his consent and even convinced him to send a letter to the Viceroy expressing his inclinations towards a railroad scheme; thus a final decision was indefinitely postponed. Disheartened, but not discouraged by this initial failure, DeLesseps returned to Egypt. There the Viceroy had received two letters, one from the Vizier and one from his brother-in-law warning him that he would fall into the hands of the French. The letters had the opposite effect from that intended and made the Viceroy even more intent on supporting the canal. It should be noted here that although DeLesseps did not have official

French support, he had the endorsement of the emperor, who often expressed himself favorably towards the project. DeLesseps' cousin, Eugénie, was Napoleon III's wife, a circumstance that made governmental circles accessible.[11]

At this point the English and French governments exchanged official diplomatic representations. Lord Cowley informed Count Walewski, the French foreign minister, that Downing Street considered the scheme objectionable and impractical. Walewski replied that France considered the canal "feasible and desirable" and proposed that both governments should inform their representatives at the Porte to abstain from interference. The reply was that England objected to the canal because it was physically impossible, except at a cost which would render the whole project unprofitable and that "Her Majesty's government cannot disguise from themselves that it is founded upon an antagonistic policy on the part of France in regard to Egypt." These were obviously not the real reasons. The actual objections were that the whole movement was led by a Frenchman, that it appeared to be essentially a French undertaking, and that the success of the project would menace England's communications with India. The French government replied that the company had no intention of asking for the assistance of any government; that if England considered the project a physical impossibility, it need not participate; and that France was not seeking territorial ascendency over Egypt.[12]

In June, 1855, DeLesseps visited the heartland of the opposition. His earliest call was on the Prime Minister and chief opponent to the canal, Lord Palmerston. The latter repeated the earlier objections, but went on in a more honest and confidential vein: [13]

> I do not hesitate to point out to you my apprehensions; they consist first, in the fear of seeing the commercial and maritime relations of Great Britain upset by the opening of a new route which, while giving passage to the navigation of all countries, will take away the advantages we possess at the present time. I will also acknowledge to you that I fear the uncertainty of the future concerning France, the future which every statesman must consider in all its unpleasant eventualities; although our confidence in the sincerity and loyalty of the Emperor's attitude is complete, but after him, this attitude could change.

Powerful interests were arrayed against DeLesseps in London — the permanent officials of the Foreign Office and the press. *The Times*, which opposed the canal throughout this period, empha-

[11] Pierre Crabitès, *The Spoliation of Suez* (London, 1940), p. 39.

[12] Hallberg, *op cit.*, pp. 133–34.

[13] Ferdinand DeLesseps, *Lettres Journal et Documents* (Paris, 1875), I, 211–20.

sized the natural obstacles, stating: "in a land where the face of nature is changed by a tempest of wind . . . a single night of storm will engulf everything in sand." *The Daily News* sarcastically commented that "the literature of fiction is not dead in the land of Dumas and M. DeLesseps. The most extravagant romancers are children compared with the great discoverer of a new Pelusium, trying to convince his audience that 250 sick Europeans and 600 conscripted Arabs will accomplish this stupendous work, without money, water, stones. . . ." Important banking interests were also arrayed against him. Many financiers, who were backing the Peninsula and Oriental Steamship Company and its Egyptian railroad connections, saw that a canal would not benefit them. But DeLesseps also found many supporters. He set out on a lecture tour; he prepared statements which he distributed to all leading men, members of Parliament, merchants, and shippers. The last two groups gave their warm approval.[14]

DeLesseps' activities in England were amazing when one realizes the odds he worked against. He was opposed by all influential government officials, he had no official French support, popular opinion in the world at the time (1855) was still indifferent, he had no financial support, and yet he struggled as if his goal was in sight. Pierre Crabitès, whose book is mainly antagonistic towards DeLesseps, gives the following description of the latter's activities in London: [15]

> . . . DeLesseps did not lose a moment. He was ubiquitous and indefatigable. When he was not interviewing cabinet ministers, journalists or members of Parliament, when he was not dining out where influential men and women congregated, when he was not in the city calling upon shipping magnates, his eyes were turned towards Cairo, Paris and the Isthmus itself.

Upon returning to France, he formed an International Commission to inquire into the feasibility of constructing the canal. The purpose was to lay out actual plans for the project, to estimate costs, and to convince governments and the international public of the seriousness and practicality of the project. He knew that if *he* were to choose the members, the opinion of such a body would not carry much weight. He therefore asked various governments to make selections of scientists and engineers. Six countries, Holland, Prussia, Austria, Piedmont, Spain, and France complied; only Great Britain refused to appoint representatives, but DeLesseps appointed three English engineers.

[14] Fitzgerald, *op. cit.*, p. 54; Schonfield, *op. cit.*, pp. 27–28.
[15] Crabitès, *op. cit.*, p. 46.

This group met in Paris on October 31, 1855. It was agreed that the engineers would leave immediately for Egypt to make an on-the-spot study. The expenses, amounting to 12,000 pounds, were paid by the Viceroy of Egypt. They reported to the latter on January 2, 1856, that a direct canal would be suitable and offered little difficulty in execution; that the ports on each end of the canal were well adapted; that the total cost would amount to 6 million pounds. The work of the commission was continued in Paris, where the facts collected were formulated into a formal report, which was submitted on June 23, 1856, but which appeared only at the end of the year. It was exhaustive and proved to be accurate in its findings. Its publication gave the whole project more concrete form. It was widely circulated and people became aware that the canal promotion was "something more than an attempt by a concessionaire to interest capital and public opinion by his franchise." [16]

DeLesseps did not wait for the final report to be published, but got in touch with scientific bodies and obtained their support. He was backed by the Académie des Sciences, the Société de Géographie, various Chambers of Commerce, and other prominent groups with an interest in the engineering or commercial aspects of his scheme. By his own efforts, because of the publicity his work and the commission's report received, he became more and more popular in France and throughout Europe. The French public was coming to regard the project as a national enterprise whose fulfillment would not only benefit world commerce, but also the prestige of France.

In the midst of his rising popularity, DeLesseps made a trip to England again in 1856. He was received by Queen Victoria and the Prince Consort. The latter was greatly interested in the canal and asked many questions. DeLesseps was also invited to address a meeting of the Royal Geographical Society, where his remarks were accorded an enthusiastic reception.

From the middle of 1856 on, DeLesseps was engaged in a full-scale promotion campaign which lasted until the end of 1858. He was granted an interview with Metternich, which strengthened his hand considerably. Even Pope Pius IX sent a note of encouragement. He traveled all over Europe and won over the Chambers of Commerce of Marseilles, Havre, Genoa, Barcelona, Hamburg, and Amsterdam. He gained adherents in Russia and Australia. Even in England he had his champions in Cobden, Lord John Russel, Glad-

[16] Schonfield, *op. cit.*, p. 30; Fitzgerald, *op. cit.*, p. 60.

stone. His cause was espoused in Liverpool and other cities. He seemed to be tireless as he traveled from country to country making speeches, meeting influential people, and at the same time, coordinating the operation of the promotion. In April, 1857, he went to England once more and stayed there until June. He took part in 24 big meetings and a host of small gatherings. He was well received in London, Liverpool, Manchester, and other cities. He again addressed the Chambers of Commerce, merchant, and shipping groups, and he obtained from them declarations favoring the canal. The entire record of speeches was published immediately in book form and dedicated to the members of the British Parliament.[17]

There can be no doubt that DeLesseps' activities in Great Britain had widespread effect. He succeeded in turning a large segment of the public to his side. Even members of Parliament began to question the government's policy. Although the pressure on him was great, Palmerston did not give in. He seemed to believe, or pretended to believe, that the French were working hand in hand with the Viceroy in digging a trench wide enough and deep enough to be a military obstacle for Turkish armies advancing through Syria into Egypt. It was ironic that during the First World War, England would be grateful for using the canal as a barrier for invasion in defending Egypt against Turkey. Palmerston's policy was continued by his successor, Lord Derby. A full-dress debate on the subject was staged in the House on June 1, 1858. Many great and powerful men fought on both sides. Palmerston and Disraeli (who later purchased shares for England) united on one side, and Gladstone and Roebuck on the pro-canal side. But Britain continued its diplomatic pressure at Constantinople.

The great debate in the House, DeLesseps' extensive tours, and open clashes between public officials created the best kind of publicity. For example, when Stephenson stated that his two engineering colleagues, Negrelli and Talabot, had agreed with him that the canal would be at best a stagnant ditch, DeLesseps got Negrelli into the limelight; the latter denied ever having made such a statement and he said furthermore that the canal should be dug and would be a boon to commerce. Additional publicity resulted from the clash between *The Times* and the *Journal des Débats*, whose statements and refutations kept the issue in front of the public. But the consent from the Sultan did not come. When, however, it became clear by 1858 that public opinion in the world was decidedly favor-

[17] Bertrand et Ferrier, *op. cit.*, p. 111.

able to the project, an understanding was reached between Lord Crowley and Count Walewski which established that "neither Downing Street nor the Quai D'Orsay would apply any pressure to Turkey but would, on the contrary, allow this purely scientific and commercial enterprise to stand or fall upon its merit." [18] Everyone was satisfied: Crowley because he was convinced that the project was not feasible; the French government because it had much to gain if the project succeeded and nothing to lose if it failed; and DeLesseps because he had what he wanted most, a chance to work on the project outside the political sphere.

Some of the outstanding entrepreneurial qualities of DeLesseps stand out during these "promotion years." Without great faith in his dream and in himself, without his extreme optimism, without his fantastic naïveté, and without his seemingly endless energy, he would never have survived the long years of campaigning. It took more than just an ordinary man to keep up the struggle after endless and unsuccessful days in Constantinople, to go against the formidable opposition of Palmerston, to go right into "enemy territory" (England) in order to win over the public, and not to give up in despair after the French government's refusal to support the project officially. These qualities which made DeLesseps an out-of-the-ordinary person did not stem from a superior intelligence or prophetic vision. More important were his stubbornness and self-confidence. He never doubted his scheme, otherwise he surely would have given it up earlier. These, clearly, are essential entrepreneurial qualities. The innovator cannot afford to be either a weak or a self-questioning intellectual or a realistic-to-the-last-detail man of affairs. Optimism and naïveté are necessary in order to face successfully the many obstacles that a realist would never be able to stand up against.

In DeLesseps' case the goal was an opiate, minimizing the pain of the struggle which he was going through. To him the value of the canal was due to the possibility of speeding communications between East and West, thereby contributing to the industrial and commercial prosperity of the whole world. He could not understand what there was to quarrel about. He could not see England's opposition, since it would benefit her manufacturing and shipping and would bring India much nearer to the motherland by many thousands of miles. This is amazing, since DeLesseps had been in the diplomatic service for years and should have known the intricacies of international relations. But apparently he was obsessed with his

[18] Crabitès, *op. cit.*, p. 52.

ideas. He "believed that his only hope lay in adhering strictly to the business aspect of his proposition, in the confidence that the political complications arising from the contemplated alteration in geography would in due course sort themselves out." [19]

The Financing

In approaching the problem of assembling funds for his company, DeLesseps displayed extreme ignorance of financial affairs. Although he won over large segments of world opinion, he never won the support of the conservative financial circles of Europe. The severe financial crisis of 1857 and the arming in late 1858 for the Italian war, which occurred the following year, complicated matters. It is claimed, however, that DeLesseps had many applications from "the horde of pseudo-financiers and rich gamblers that bred and flourished under the Empire . . ." but that he would not have anything to do with them. [20]

DeLesseps originally intended to have the Rothschilds raise the necessary capital. The incident of his interview with Rothschild was later told by him; it reveals some of his basic qualities of character and also the general situation surrounding the financing. [21]

> I began by telling M. de Rothschild of my desire to begin shortly by raising my capital, which would amount to 200 million francs. The Baron interrupted me to congratulate me. He spoke enthusiastically of the project, and what it meant to civilization, of what it implied to business, and how pleased he would be to co-operate with me. And, in conclusion, he remarked: "If you think that my firm can be of any use to you, our offices in Paris and in foreign parts will be most pleased to receive subscriptions from you." I was delighted, and I thanked him effusively. I was about to leave, when the idea came into my head that all that he proposed to do for me would perhaps not be done gratuitously. I therefore said: "What will all this cost me?" The answer was: "Mon Dieu! It is obvious that you are not a business man. Our charge will be the usual 5 per cent." "Five per cent," I exclaimed, "We are dealing with a sum of 200 million francs. This means 10 million francs. Ten million francs for your dark corridors. Great Heavens! Keep your counting rooms. I'll raise my money without you. I'll find office room somewhere. I'll pay a rental of 12,000 francs per month and we'll get what we want."

After quoting this passage (originally taken from DeLesseps' *Lettres*), Crabitès justly says that: "I have let DeLesseps speak for himself because this incident brings out both his naïveté and his

[19] Schonfield, *op. cit.*, p. 34.

[20] Maurice Block, "Der Kanal von Suez," *Vierteljahrschrift für Volkswirtschaft und Kulturgeschichte* (Berlin, 1870), pp. 65–66.

[21] Crabitès, *op. cit.*, p. 55.

audacity. It shows that he had the vision of a Bonaparte and the simplicity of a child. Conscious of his own strength in some matters, in others he could not see beyond his nose." He was almost ready to launch one of the great industrial enterprises of the century, and yet he was basically ignorant of basic principles of business. He expected that a reputable " . . . banking house could be expected to take him under its aegis for something as ethereal as the smile he had given Mohammed Said as sole payment for the Suez Canal concession." [22] Although he could easily lease offices in Paris for a monthly rent of 12,000 francs, he would have to have access to bankers in foreign countries and in the provinces to get subscribers there. He also lost through this policy the guidance of and contact with leading and reputable financiers who would have saved him many additional worries later on.

On October 15, 1858, DeLesseps issued a circular to all newspapers, French and foreign. It explained the purpose of the canal and was made out in such a way as to appeal to the public at large as future subscribers. It was announced that subscription for shares would be open to the public from November 5 to 30. Subscription books were to be opened at the same time all over Europe and the United States. [23]

The company was set up along the French pattern known as "Société Anonyme." The viceroy of Egypt confirmed the Statutes. The home of the company was fixed at Alexandria; its legal domicile was to be in Paris. It was thus an Egyptian company whose main headquarters were in Paris. Total expenses of the project were estimated at 160 million francs; this did not include the 5 per cent per annum interest due to shareholders on all amounts paid to them. Thus the capital which was raised amounted to 200 million francs. This would be divided into 400,000 shares of 500 francs each. [24]

In order to make the company truly universal, the Viceroy insisted that not more than half of the shares were to be sold in France. Thus, 85,000 shares were reserved for investors in England, Austria, Russia, and the United States. The subscription lists were both a triumph and failure for DeLesseps; but before commenting further, let us list the distribution of the actual shares sold in the 25 days: [25]

[22] *Ibid.*, pp. 55–56.

[23] Bertrand et Ferrier, *op. cit.*, p. 150.

[24] Sir Arnold Wilson, *The Suez Canal, Its Past, Present, and Future* (London, 1933), pp. 21–22.

[25] *Ibid.*

France	207,111 shares
Ottoman Empire (exclusive of the Viceroy's personal investments)	96,517
Spain	4,046
Holland	2,615
Tunis	1,714
Piedmont	1,353
Switzerland	460
Belgium	324
Tuscany	176
Naples	97
Rome	54
Prussia	15
Denmark	7
Portugal	5
Sums held in reserve for Austria, Great Britain, Russia, United States, which the Viceroy guaranteed should they not be taken	85,506
	400,000

The issue was a failure outside France. Not one of the issues reserved for the above-mentioned countries was touched. In France, DeLesseps triumphed; most striking was the "popular" reaction; over 21,000 Frenchmen bought shares. This success can even be better appreciated when one looks at the composition of the population which bought over 200,000 shares. The breakdown by occupation was as follows: [26]

	Shares		Shares
Mechanics	91	Artisans	928
Engineers	249	Soldiers	973
Judges	267	Public Officials	1,309
Bankers and Brokers	369	Employees	2,195
Doctors	433	Merchants and Mfgs.	4,763
Teachers	434	Landed Proprietors	5,782
Priests	480	Occupation unknown	1,943
Members of the Bar	819		

The remarkable absence of any single large investor is borne out by the following statistics compiled by DeLesseps: [27]

Subscribers to 1,000 shares	1
" " 600 "	1
" " 550 "	4
" " 450 "	1
" " 400 "	2

[26] DeLesseps, *op. cit.*, II, 393.
[27] *Ibid.*

Subscribers	to	300	shares	6
"	"	250	"	8
"	"	200	"	24
"	"	100	"	128

The bulk of the French subscribers bought less than 100 shares each; the average subscription was 9 shares. The interpretation of this phenomenon varies according to the point of view of the writer. Crabitès saw in this a perfect picture of the French "bas de laine"; that is, the small-minded peasant or petty bourgeois who acts poor, but who has hidden in his sock, so to speak, a good sum of money. In his opinion, the sale really reflected the basic wealth of France and its conservatism and patriotism; the people were willing "to take a gambler's chance upon a proposition which appeals to them, provided they have the ready cash available and the amount of their outlay is relatively small." André Siegfried looked at the event in a more compassionate way. He saw in the participation of so many classes, and particularly the most humble, a basic drive which DeLesseps impersonated to them. In participating, they hoped to make a good investment, but in addition, everyone felt a certain pride in collaborating with one of the great "human" enterprises which would serve the world and which was led by a Frenchman. Many also saw an opportunity in this project to teach the English a good lesson. [28]

The lack of support from the rest of Europe was a big thorn in the company's plans, especially the 85,000 shares reserved for Great Britain, Russia, Austria, and the United States. These unsold shares threatened the continuation and realization of the canal before it got fully under way. The *deus ex machina* appeared in the last minute in the form of the Viceroy of Egypt, who took over all the shares which had not been bought. On December 15, 1858, with all the capital subscribed for, the company was officially declared as being constituted. It was really not a "Compagnie Universelle" since it consisted mainly of French and Egyptian capital (53 per cent of the shares were bought in France, 44 per cent by the Egyptian government, and only 3 per cent by other countries). [29]

Let us try to explain the failure of the issue in other countries. It would be plausible to suppose that Palmerston's denunciation of the scheme as a "bubble" enterprise had effectively scared British capital. Although the British public was favorably inclined, the

[28] R. J. Nousbaum et G. Hutchings, *Compagnie Universelle du Canal de Suez* (Paris, 1947), pp. 45–46.

[29] *Ibid.*, pp. 47–48.

government's persistent opposition and the international overtones did much to dampen enthusiasm; there was especially the risk of aiding French imperialism by taking part in the scheme. The explanation of the lack of American capital is obvious considering the country's own needs. Maurice Block makes some interesting observations in this area.[30] He states that since the 1840's financial enterprises had sprung up all over and could have sifted in a lot of savings by 1858. Furthermore, many of the speculators on the continent did not look upon the canal as a fruitful enterprise compared to the types of shares which were offered by the great financial houses. This argument does not hold well, since DeLesseps did not look for the type of capital coming from "professional" sources. The latter remarked once in referring to the large number of small buyers in France that "these shares are in safe and sound hands; they will not be thrown upon the market." Thus, the lack of success outside of France could be ascribed to DeLesseps' disdain of dealing with the traditional sources of capital. In France he found the capital among the common people, but this was more difficult in other countries where the population's wealth, the saving of the laboring classes, was considerably less than in France. In other countries he could not open his own offices and was forced, in consequence, to market the shares through financial institutions and banks. The latter were not in the habit, at this time, of appealing to the ordinary people but looked, instead, to their regular customers, the wealthy investors, who were not much interested in the controversial shares.

Block is also of the opinion that more shares would have been sold if they had been issued in denominations smaller than 500 francs. This is doubtful, since this was not an excessively high amount as compared to other securities; one should also consider that nine years later, in 1867, a law was passed in France fixing the face value of shares that were sold on the market at a minimum of 500 francs for companies with a capital of more than 200,000 francs.[31] Attention should also be called to the fact that an initial payment of only 50 francs was required at the time of subscription; a second payment was due in January, 1859; two more payments of 50 francs were due on July 1, 1859, and January 1, 1860, and finally, three payments were to be made in July of 1862, 1864, and 1866.[32] Thus it can surely not be claimed that the amount of money

[30] Block, *op. cit.*, pp. 67–70.
[31] Léon Lacour, *Précis De Droit Commercial* (Paris, 1953), p. 172.
[32] Nousbaum et Hutchings, *op. cit.*, p. 241.

that had to be deposited was a forbidding obstacle to investors of moderate means.

Another interesting point is Block's comment on the interest payments made during the period of construction. The promise to pay interest from the date of issue seems to have been prevalent at the time and naturally made shares more attractive. Block criticizes this move on the ground that shares are not debt-certificates or other forms of obligations, but rather "Anteil-Zertifikate," or certificates of co-ownership, and therefore should have entitled the holder to a return only if there were net earnings. It was initially calculated that the whole project would cost 160 million francs and that to cover the interest which would have to be paid, 200 million francs were required. This meant that investors paid in more than the project cost in order to realize some of the anticipated profits before the project was completed. This type of financing, of course, was also prevalent in railroad construction and other types of industrial promotions at the time.[33] Actually, the capital of the company ran short and a loan had to be made before construction was completed.

Denouement

Work on the canal began in April, 1859, under primitive circumstances, but ended up as a model engineering project employing the latest and most complicated machinery. It seems that the company was forced initially to employ Arab manual labor only, in order not to put too much of its capital into the project at the beginning. There were obvious reasons for this caution. Capital was not all paid in at once, but rather in installments; the political situation was not completely settled until a few years later when the British finally gave up trying to interfere with the canal; and, finally, it was deemed prudent not to invest all of the capital in fixed stock immediately because unforeseen circumstances might make alternate courses of procedure expedient.

It turned out that the cost of construction was more than had been anticipated. This was not so much due to faulty planning as to changes in factors which were assumed in the blueprints to be fixed. For example, political obstacles arose unexpectedly, an epidemic broke out, and contracts were modified.

In November, 1867, the company put on the market 333,333 bonds having a par value of 300 francs, payable in fifteen years and bear-

[33] Claudio Jannet, *Le Capital, La Speculation, et La Finance au XIX Siecle* (Paris, 1892), p. 186.

ing an annual interest of 25 francs. The issue was a failure; only 30 million francs out of the 100 million needed to complete the canal were subscribed for. Was this failure due to the public disappointment in the company for not having made correct estimates? This could not have been the main reason. The original estimates were correct when one discounts unexpected difficulties. It was calculated that work would be finished within six years, but the actual duration was 10 years. One of the main obstacles was the withdrawal by Ismael Pasha, who succeeded Said Pasha, of the free corvée labor originally available to the company. Regular labor had to be hired and more expensive machinery was introduced, which augmented costs considerably. In the period 1863–64 there were even a number of disagreements with the Pasha which stopped the whole enterprise for awhile. Many concessions were withdrawn, such as the land grants to the company.

With only 30 per cent of the needed sum raised, DeLesseps asked the French government for permission to conduct a national lottery to raise the remainder of the capital. A special law was passed on July 4, 1868, giving permission to the company to hold such a lottery. Within three days the additional 70 million francs were raised. The arrangements were similar to the bond issue. Obligations with a face value of 500 francs were issued for 300 francs and bore an interest of 25 francs. From then on, the work on the canal proceeded smoothly and without any interference. On November 17, 1869, it was opened with appropriate pomp and circumstance.

Six years later, an interesting and familiar group of actors appeared on the Suez stage but they were speaking new lines. The occasion was the purchase of a substantial amount of Suez Canal shares by England, under the leadership of Disraeli and with the aid of the Rothschilds. Sir Ian Malcolm calls this episode "The greatest romance of Mr. Disraeli's romantic career." On the evening of November 14, 1875, the editor of the *Pall Mall Gazette*, Frederick Greenwood, had dinner with Henry Oppenheim, a London banker. He learned from the latter that the Khedive was negotiating with a French company for the sale of his shares in the Suez Canal. Greenwood got in touch immediately with the foreign minister, Lord Derby, who brought the news to Disraeli's attention. The latter instantly saw the possibilities involved and set to work. Telegrams passed between London and Cairo. The Khedive was informed that the British government ". . . could not view with indifference the transfer to persons unknown of the said shares, and desired that

the negotiations should be suspended and the purchase price disclosed." The shares were offered to Disraeli on November 23 at a price of 100 million francs. The money was guaranteed by the Rothschilds and on November 25 the contract was signed in Cairo. The shares were deposited at the British consulate on November 26, 1876.[34] It would be superfluous to comment on the significance of the event to Britain, except to point to this obvious example of British practicality and ability to make an about-face in position on the world stage.

Evaluation

In the time of the Pharaohs, the world political-economic center was in the Middle East, and Egypt was a nucleus of power from which forces radiated in all directions. Thus, a canal was a military and economic necessity; it speeded up supplies and made the machinery of the state more mobile. Since the country was autocratic, there was no problem for the ruler to marshal the means and launch the venture. The chief difficulty was technical. Although many foreigners might benefit from the project, the existence of the canal depended on the whim of the ruler.

From the eighth to the nineteenth century Europe gradually increased in importance as a political-economic entity, but for many centuries the power of the Arab world was a strong counterbalance, and relations between the two centers were practically nonexistent. By the nineteenth century, however, Europe was *the* center of economic gravity, while the area around the Isthmus of Suez was economically and politically insignificant. Until the nineteenth century this area was within the orbit of one of the rival power systems. It was not advantageous to pierce a canal, however, because the Turkish empire was not the sole power in the Occident. When the idea was again revived in the sixteenth century, the required factors were not available. Although European interests were spurred on by the expanding Far Eastern trade, the requisite power, funds, and plans were nonexistent. Thus, the general historical setting in each period contributed to the practicability or impracticability of the canal project.

By the nineteenth century the situation was in many ways the reverse from what it had been in antiquity. Interest in a canal was no longer derived from desire to lubricate a particular power system,

[34] Sir Ian Malcolm, "The Suez Canal," *The National Review* (May, 1921), pp. 6–8.

but rather from need for a simple short-cut in world commerce. Although the balance of economic power was now in Western Europe, this was no longer a single and cohesive center; it comprised a delicate balance of many selfish interests. Within this setting it was practically impossible for a single government or one ruler to undertake the waterway project. This was a natural opportunity for an individual or a private group to step into the picture.

Why did DeLesseps succeed? The answer lies partly in such entrepreneurial essentials as skillful promotion, adequate financing, and luck. A group like the Saint-Simonians under Enfantin fell down on all three counts, but especially the first. They did not have their feet on the ground in wanting to go it alone. The fact that DeLesseps insisted on an international company, internationally financed and internationally administered, made the goal possible. One might attribute to luck the fact that he had personal contacts in Egypt and France, but if the idea had not been based on an international company, the Viceroy could not possibly have consented to the undertaking.

Without DeLesseps' long campaign after the granting of the first concession, neither the initial financing nor the launching of the canal project would ever have come about. His long and noisy encounters with the British, his speaking tours, and Palmerston's stubborn opposition captured the attention of a world which otherwise might have remained indifferent to his plans. The important qualities which this entrepreneur possessed were courage, patience, and single-mindedness. Had he been more realistic, he might have given up, not because of lack of courage but because he would have been forced to concede how illogical and hopeless his project was.

It should also be noticed that DeLesseps was not a specialist in any field, if one discounts diplomacy, of which he made little use. He was not an engineer, a financier, a politician, or a businessman. This lack of specialization surely helped him. It gave him perspective. He saw the proper place of each specialty as it fitted into his project, and he necessarily overlooked the intricacies of each field. One could say that this was part of his force as the innovator. He was an innovator not so much in the realm of original ideas as in ways of attaining them. Although the method of financing the canal was not really new, DeLesseps' defiance of bankers and financiers, his refusal to work through established channels, his success in appealing for the savings of the masses was surely pathbreaking. Similarly, his efforts to win over the British public, his

willingness to clash openly with the government without the backing of his own government, were practically unprecedented acts for a private individual. One could almost say that in an age of national laissez faire, he fought for international laissez faire and partly succeeded.

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The American Businessman at the Turn of the Century[1]

¶ The attitudes and preoccupations of businessmen at any given time are deemed important by historians both as clues to and reasons for business action. The year 1900 is a promising one in which to probe those attitudes and preoccupations because at that time a great many important characteristics of the business community were undergoing rapid change. Examination of business literature of the day suggests that the businessman of 1900 was preoccupied with the merger movement and with labor agitation, with shifting distribution patterns, and with trade association activity. His concern with financial techniques and public relations was intense, if erratic, and he was preoccupied with problems of administrative structure. He was, in short, concerned with those developments commonly emphasized by historians, but with so much more besides as to suggest several new research avenues. Surprising results emerge when business attitudes and preoccupations of 1900 are compared with those of 1958.

The year 1900, like other milestones in time, was a period when businessmen took stock of their accomplishments and looked critically at where they stood. Because it was the turn of the century, lines for their public speeches were ready-made: "But a few months ago the bells of New Year's Eve rang out the old year, and we now stand on the threshold of a new century."[2] And

[1] Evidence upon which this article is based was gathered from published business literature of around 1900. This consisted of trade journals, commercial newspapers, annual reports and other reports by companies to stockholders, books by, about, and for businessmen, and testimony before the Industrial Commission. The author's analysis of 1900 is derived from perusal of the general literature rather than from any single segment of it; quotations are employed for purposes of illustration rather than documentation. The bias implicit in many of the sources employed is recognized. All business literature tended to magnify business problems in general and the progress and necessities of American business in particular. Some sources were habitually conservative or liberal: optimistic or pessimistic. Others were intent on promoting particular issues — foreign trade, tariff protection, protection of the jobber, and so on. The more obvious prejudices have been taken into account in preparing this article; it is hoped that perusal of many business writings has served to cancel out undetected bias in each.

[2] Address of H. B. Lupton, American Steel & Wire Company, at meeting

businessmen today look back to the turn of the century for a reference point against which to measure their own progress or in which to find historical parallels. Phrases like the following abound in modern business literature: "Indeed, the situation in the office today is not unlike what it was in the factory at the turn of the century, when top management first began to look seriously at all the issues involved in mechanizing factory production." [3] What were businessmen thinking and doing in 1900? What were their preoccupations and contributions to the progress of business management? What did they think of the climate in which they were conducting their businesses? These questions spotlight more than a transition from one century to another. In 1900 American business was changing at an accelerating pace; old patterns were being discarded; many practices and attributes of present-day enterprise were taking shape. If these events are studied in terms of broad economic or sociological movements, one kind of picture emerges; if viewed through the nearer but narrower window of company history, another impression is gained. The present article attempts a third kind of approach – an across-the-board look at the business scene of a given, significant era. The goal is to discover what businessmen of that day, rather than the historian of a later day, considered important. Such knowledge promises a better understanding of the reasons for business decisions made at that time. It may also help to illuminate comparative stages of development of a number of major phases of business administration.

This process of historical cross-sectioning is, to be sure, a static one, and would be useless or even dangerous were it not utilized as a supplement to, rather than a substitute for, those studies that contemplate the sweep of economic forces and the trend of the individual firm. But, properly qualified, the cross-section may reveal new forces to be traced, and serve as a reference point for the study of the firm.

The Business Climate of 1900

For businessmen, a good part of the 90's had been far from gay, but an upturn from the depression of the mid-90's had come in the latter part of the decade, when they reached new peaks in indus-

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of Southern Hardware Jobbers' Association. *The Iron Age* (June 21, 1900), p. 55.

[3] Russell B. McNeill, "Mechanizing Paper Work," *Harvard Business Review* (July, 1948), p. 492.

trial achievement. Businessmen in 1900 were well aware of this turn of events and of the generally favorable business climate.[4]

> A retrospect of 1900 is decidedly pleasing. The record is one of progress and important achievements. Our internal trade was of large volume, surpassing in not a few lines of industry the business done in 1899, which had never previously been equaled. Our foreign trade made a new high record and yielded a balance in the country's favor even more phenomenal than the amounts for 1898 and 1899. New legislation and the popular vote further strengthened and fortified financial and monetary affairs. Our bankers were able to make a departure and began to take part in the floating of European government loans, thus reversing our old-time position, where we had to seek rather than to furnish capital abroad. The year was not free from disturbing incidents, but looking back now it is easy to see that these were not unmixed evils. They caused more or less anxiety while they lasted, but after all resulted to the ultimate advantage and betterment of the situation. As a consequence, the year closed under extremely favorable auspices, with the utmost cheerfulness prevailing in financial and commercial circles, and with the stock market buoyant beyond measure . . . .

Contributing to these anxious moments were strikes, price declines, and a minor "corrective" lull, but three years of "merger prosperity" were to follow.

Two events in 1900 were especially reassuring to businessmen: the passage of the gold standard act in March and the Republican victory in the November presidential election. The gold standard act was "another long step towards the attainment of a sound currency."[5] A similar view was that "one great menace to business" was removed, and that after 25 years of "constant political agitation, . . . the constant pressure of a growing public sentiment forced Congress to the final step of making the law agree with the fact, that there can be but one measure of values," that is, that bimetallism was impractical.[6]

With McKinley's victory, businessmen were planning to proceed to bigger and better things in a friendly Republican atmosphere in which business and labor would both flourish:[7]

> The settlement of the Presidential contest by a result so decisive removes from the business horizon a great element of uncertainty. All branches of the Government being in accord, no possible doubt can be entertained as to the policy that will be pursued in all matters fundamentally affecting business interests . . . . Whatever may be necessary or desirable in the way of national legislation from a business standpoint should be easy of accomplishment, while

[4] *The Commercial & Financial Chronicle* (Jan. 5, 1901), p. 6.
[5] *Ibid.* (March 17, 1900), p. 502.
[6] *The Iron Age* (Feb. 22, 1900), p. 16.
[7] *Ibid.* (Nov. 15, 1900), p. 21.

at the same time it can be depended upon not to upset or disarrange the general business situation. In this feeling of thankfulness the wage earner should share, for his interests are so closely identified with those of his employer that what adversely affects the latter must also affect him.

But the election outcome was not without some cynical response. An Oregon correspondent to *The Iron Age* wrote:[8]

The proverbial "McKinley luck" has again asserted itself, and it now devolves on him to control the elements of drought and flood, winds and frosts throughout the world, as he has done the past four years, so that we shall have big crops, and those not under his benignant sway poor ones, that we may reap higher prices at their expense, and bring on another boom. It is certainly to be hoped that the bottom will not be knocked out of the full dinner pail within the next four years, so that he and Mr. Hanna will have niches in the Hall of Fame, with the inscription, "These men alone, in the history of the world, have been able to exert a Divine power heretofore conceded only to God."

We shall see.

Businessmen in 1900 shared with their fellow-countrymen an outstanding interest in international affairs. We had just acquired foreign dependencies and were excited about possible imperialism and our new status in foreign trade and international finance. The financial press was saying, ". . . the outside public has now come to realize that the New York money market is about to become one of the greatest financial centres of the world."[9] Foreign business practices were receiving wide attention from businessmen, and translations of foreign books and articles on business and economic subjects were common. In some quarters they were received with the distrust accorded anything not native, but in others with a genuine objective interest.

In the main, then, there was an economic and political climate that businessmen found favorable and a prevailing atmosphere of big things accomplished and big opportunities lying ahead, both at home and abroad.

Organization of Business Enterprise in 1900

In this favorable climate of 1900, the matter of chief concern to businessmen was the "trust," a word perverted by usage to include almost any corporate merger or combination, or even just a big corporation.[10] Thus the main preoccupation of these men was with

[8] *Ibid.*, p. 42.

[9] *The Commercial & Financial Chronicle* (Sept. 8, 1900), London letter, p. 475.

[10] The legal form of the trust had largely disappeared during the 1890's, when state holding company acts rendered trusteeship arrangements unneces-

the organizational form of business enterprise. For the individual firm incorporation as such was a real issue, for both small and large businesses and for nonmergers as well as mergers. On a broader plane, there were two developments of outstanding interest to contemporary businessmen. These were, first, the revolutionary changes that were taking place in established channels of distribution and, second, the mushrooming growth of business associations.

Incorporation

Although there was nothing novel about the corporation as such, it was not in 1900 the accepted form of organization for business that it is today, and the question of whether or not to incorporate was a major concern of many businessmen. This concern derived not only from unfamiliarity, but also from the fact that the corporation was suspect in some quarters, where the sheer size and irregular practices of some corporations were regarded as characteristic of all and a prime target for investigation and regulation. Heads of companies, therefore, were put on the defensive simply by the act of incorporating their businesses, irrespective of their standing in the community.

The extent of the current interest in incorporation is shown by the remarks of the Committee on Meetings of the American Academy of Political and Social Science. It wished to choose a general topic for the 1900 meeting that would equal in "importance and interest" the subject of the previous year, which had been "The Foreign Policy of the United States, Political and Commercial." Choosing "Corporations and Public Welfare" for 1900, it said:[11]

> The plan of selecting a subject which is in the foreground of public discussions has so fully justified itself that it is unnecessary to comment on the selection of the topic for this year's meeting. Throughout the country the growing influence of corporations on industrial and political life is being discussed and made the issue of local and national political campaigns. It is, therefore, of the very greatest importance to the continued stability of our institutions that the judgment of the people on these fundamental questions should be formed after the most thorough presentation of facts without party bias or personal interest.

The growing appeal of incorporation to businessmen and the current public concern over corporations and trusts were pointed out

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sary. In this article the word is employed in its popular rather than its literal sense.

[11] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 203.

by Senator William Lindsay of Kentucky, featured speaker at the annual convention of the Academy in April, 1900: [12]

. . . we have reached the point at which the individual feels he can no longer compete with his incorporated rival, and where members of old-time partnerships are no longer willing to pledge their personal credit in competition with members of incorporated companies, whose liabilities being limited, do not hesitate to assume risks in business adventures from which prudent business men, unprotectd by corporate exemptions, unhesitatingly shrink.

The inequality in the advantages enjoyed by corporations and individuals has aroused feelings of impatience and discontent, and those feelings have culminated in the demand for corporate regulations, which, in some instances, are as unreasonable as they are needlessly comprehensive. Those interested in corporate property and corporate business, of course, resist such demands, and out of the demands on one side, and resistance on the other, the great question of trusts, and what is to be done with and about trusts, has developed into an issue of transcendent national importance.

Businessmen electing the corporate form of organization had a fluent champion in John R. Dos Passos, lawyer and active trust promoter: [13]

If corporations were bad, if aggregated capital were pernicious, if it distilled poison into the veins of commerce and labor of this country, the time to have acted was to have throttled the corporation in its cradle 40 years ago; but now, when it is twined around every branch of your commercial development, your industrial prosperity, and your financial body, you are not apt to listen to a demand to destroy it, to cut it down. The destruction of corporations means the end of your present commercial system.

Available to businessmen were various reference works giving summaries of arguments for and against incorporation, compilations of the incorporation laws of the different states, and general information on technicalities of incorporation. These included Moody's *Manual of Industrial and Miscellaneous Securities* for 1900 (its first year of publication); Volume I of the reports of the Industrial Commission, published in 1900; and a 200-page book, also published in that year, *The Organization and Management of a Business Corporation*,[14] by Thomas Conyngton, a lawyer and believer in the benefits of incorporation. In his introduction Conyngton said: [15]

[12] He spoke on "The Influence of Corporations on Political Life." *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 79. Quotation from pp. 81–82.

[13] Industrial Commission, *Preliminary Report on Trusts and Industrial Combinations* (Washington, 1900), Vol. I, "Testimony," p. 1155.

[14] (New York: The Ronald Press, 1900.)

[15] *Conyngton on Business Corporations* (New York, 1900), pp. 7 and 8.

The characteristic feature of modern business enterprise is combination,— of capital, energy and skill. The methods of combination are themselves modern. The present volume treats of these methods whereby interests and forces in themselves widely divergent are brought together and combined in one, easily handled, marvelously effective, legal entity — the Corporation.

While giving much useful information on the procedural steps in incorporation, the author pointed out that the volume did not advocate "any such dangerous economy" as replacing the lawyer. (This was, in fact, a boom period for corporation lawyers.) He said of his book:

Particularly it is designed to facilitate and encourage the extension of the corporate advantages to those smaller enterprises now usually conducted under the cumbrous and dangerous system of partnership.

Trusts and Big Business

The year 1900 was in the midst of an era notable even in retrospect for the number and size of trusts formed. Many businessmen not participating appear to have been envious or fearful of them. There had been an actual "trust epidemic" in 1899, exceeding in prominence and effect "every other event or incident of the twelve months." While there was a decline in the number of combinations formed in 1900, there was little decline in the interest in the subject. The 1899 episode had been reported [16] as resulting in

the formation and flotation of industrial undertakings of enormous magnitude and in unparalleled numbers. In every industry, in every line and branch of trade, great consolidations and amalgamations were planned, and in most cases carried into effect. It was the great opportunity of the promoter, and he was not slow to avail of it. Seeing in any given trade a large number of separate businesses or manufactories, his effort was to merge them together in one large corporation, ensuring partial or complete control, and giving at least the appearance of monopoly.

The inspiration for forming a trust did not come from outside promoters as often as implied, however, for it had proved to be widely popular with businessmen. Some of the background of the growth and influence, actual or feared, of this form of organization that businessmen had been developing was given at the annual meeting of the National Association of Manufacturers in connection with comments on the current federal census: [17]

[16] *The Commercial & Financial Chronicle* (Jan. 6, 1900), p. 4.

[17] *Proceedings of the Fifth Annual Convention of the National Association of Manufacturers of the United States of America,* Apr. 24–26, 1900, at Boston.

The government currently was collecting statistics and opinions on trusts in two important ways: through the current census and through the Industrial

> We have witnessed since the last census a startling transformation in the methods of carrying on many of our industries. The reorganization of the manufacturing business, through combination and consolidation, has created industrial conditions without precedent in history which seem to set at naught some of the time-honored maxims of political economy, which must readjust many of our social relations, and which may largely influence and modify the future legislation of Congress and the States.
>
> In defiance of the frantic efforts of State Legislatures to check their progress and embarrass their operations these Goliath combinations have possessed themselves of the great staple industries of the country. . . . Just what their relations to the smaller industries are to be, just what is to be their effect upon wages, upon prices, upon competition, upon the general industrial conditions and prosperity of the masses, we do not know; yet this is the problem which more than all others combined interests the American people today.

Businessmen were going ahead to form mergers [18] in the face of growing protests against them. "The economic advantages of combination, and the apparent success of most of the new companies, have led many of the ablest business men and economists to the conclusion that the combinations have become an established factor in

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Commission, set up by an act of Congress in 1898 to investigate questions pertaining to immigration, labor, agriculture, manufacturing, and business and to suggest any needed legislation. (Vol. XIX, "Final Report," 1902, p. vii.) Its first report issued in March, 1900, was on "Trusts and Industrial Combinations," to which subject it had given priority because it "seemed to be one upon which there was pressing demand for trustworthy information." (Vol. I, p. 5.) The Commission, originally appointed for two years, was extended for two more and put out a second report on trusts in 1901. (Vol. XIII.)

Another exploration on a small scale had been undertaken in 1899 by the Chicago Civic Federation. It had held a Conference on Trusts in Chicago in September to explore the facts about trusts and to come up with suggestions for remedies for any abuses disclosed. The Civic Federation was a nonpartisan organization of business and professional men. They had chosen this conference subject because they had "realized that no topic seemed so widely discussed as what was designated by the general title of 'Trusts' — and that, too, upon no current topic was there so widespread and general an ignorance and confusion of ideas." (*Chicago Conference on Trusts*, The Civic Federation, Chicago, 1900, p. 7.) Public officials attended and spoke, as well as representatives of business, labor, and the public. Delegates attended from 33 states from Maine to Texas and from New York to Oregon.

[18] Steps in the process of their evolution as a form of business organization and the force behind the process were succinctly explained by *The Iron Age* (Nov. 29, 1900, p. 45). It saw "the regulation of competition [as] the heart of the industrial situation." After an era of excessive competition in which "the fittest did not always survive," had come price agreements among industry members, then pools to maintain prices, then price cuts by others attracted into industry, and, lately, the "drift toward absolute consolidation."

Instances of all these stages in the evolutionary process were still in existence, either in formal or informal associations. Some formal associations whose purposes coincided in some respects with these, but which also had other purposes are discussed further in the sections on Business Associations and Relations with Employees.

the industrial life of the nation."[19] Moody's *Manual* in 1900 listed 600 "important" companies that had become absorbed by others.

An incidental sidelight on the broad and patriotic visions of businessmen at the time was shown in their choices of names for their new amalgamations. Many new firms included in their names the words American (American Bridge Company), National (National Steel), or United States (United States Rubber). Often these supplanted the family names of the component firms, and were emblematic of the great change that was taking place in the organization of business.

The arguments currently and widely raised by outsiders against trusts are familiar and need not be repeated here. The list, however, was not confined to destruction of private initiative, unfair competition, excessive political power, and unwholesome price-output policies.[20] By a devious line of reasoning, even creeping socialism was seen as an evil likely to result from trust organization: [21]

> The chief danger, in the opinion of the Labor Commissioner [of New York, testifying before the Industrial Commission], in the present industrial situation is that the success of the trusts in conducting business enterprises will lead to the popular belief that the concentration of all business enterprises under one general management is a good thing and that thus State socialism may creep in.

Socialists themselves had seen this line of reasoning. One speaker at the Chicago Conference on Trusts in 1899 had been accused of taking "the socialistic attitude of encouraging trusts as a step toward socialism." [22]

The public was aroused, certainly, but not always in ways that caused trust managers to lose sleep. For instance, in February, 1900, the Chicago Civic Federation held a National Anti-Trust Conference, where opponents to trusts aired their views and demands for reform: [23]

> It was a curious conglomeration of agitators of all sorts. Among those present were some successful business men and a few practical men of affairs with a proper conception of what might be feasible methods of attacking real monopolies and correcting corporate abuses. But the great majority were men and women who have attained prominence or notoriety as scolds or preachers of

[19] Industrial Commission, Vol. XIX, p. 595.

[20] For typical objections see: Industrial Commission, Vol. XIX, p. 686, and Henry C. Adams in *Chicago Conference on Trusts*, The Civic Federation, p. 35.

[21] *The Iron Age* (Sept. 20, 1900), p. 6.

[22] Henry Rand Hatfield, "The Chicago Trust Conference," *The Journal of Political Economy* (Dec., 1899), p. 15.

[23] *The Iron Age* (Feb. 22, 1900), p. 16.

discontent, including not a few who fancy they discern in the popular hostility to trusts a new political issue which if it can be worked up to a sufficient point will float them into official positions.

* * *

Taking the platform as a whole, and considering it as expressing the concrete wisdom of the anti-trust sentiment of the country, it would appear more likely to drive sensible men to tolerate the trusts than to induce them to unite with anti-trust agitators in such a campaign.

Businessmen defending combinations argued against the need for legal restraints of alleged monopolies on the grounds that attempted monopolies would induce their own offsetting competition. Numerous independent individuals had had the initiative to start new competing firms; for example, in the iron trades, independent businessmen had started plants to share in the widely reported profits of mergers.[24] Some individuals, furthermore, started enterprises believing that an existing trust would buy them out rather than allow them to conduct an independent competing venture. Again, some combinations had met only temporary success because soon after being started they had been faced with similar salable enterprises, which they bought to their own disadvantage.[25]

The trade are familiar with more than one pool in which this policy is now being pursued, and in such cases merchants are justified in exercising caution in their purchases. This is especially true where the combination is naming confessedly high prices for its goods and is at the same time under heavy expenses on account of buying out competitors or subsidizing them to keep out of the market.

And trust managers who thought they had obtained control of an industry might find they had not: [26]

The most serious problem that confronts trust combinations to-day is competition from independent sources. . . . When the papers speak of a cessation of operation in certain trust industries, they fail to mention the awakening of new life in independent plants. . . . The effect of independent production is beginning to influence prices now, for the facilities of manufacture heretofore have not been in excess of a real demand. But while the causes mentioned may present themselves as disagreeable realities to trust promoters who believed that sources of production were under fixed control, the outlook must not be regarded as dark.

Part of a growing skepticism toward trusts on the part of businessmen themselves came from the unprofitable experience of some of the more recent combinations. Of nearly 100 companies formed in

[24] *Ibid.* (Sept. 20, 1900), p. 7.
[25] *Ibid.* (Nov. 1, 1900), p. 43.
[26] "Trust Competition," *The New York Financier* (June 11, 1900), p. 1312.

1899 or 1900, about three-quarters were not paying common dividends in 1900.[27] Some proposed mergers were not carried through, and some were breaking up. The Wallpaper Trust, for instance, organized in 1892, was broken up in 1900 after an unprofitable existence, and most of the plants were sold back to their original owners. These episodes undoubtedly had much to do with a decline in the number of new trusts formed in 1900.

"The conclusions to which an intelligent and dispassionate consideration of the subject" led were three:[28]

1. The tendency to form trusts was declining. They were difficult to finance because they were no longer so attractive to bankers as formerly. Experience had shown that few promises of promoters had materialized. Manufacturers, furthermore, were weighing the pros and cons more carefully before participating.
2. The large consolidations menaced no one but each other, because their success invited competition.
3. Legislation was a dangerous way to settle the issues involved.

But the trust era was far from over. The next year was to see the largest combination of all, the United States Steel Corporation, launched by some of the foremost businessmen of the time.

The Distribution Revolution

While the trust form of organization was adopted chiefly by leaders in the producing and manufacturing stages of industry, businessmen in distributing concerns were participating in, or fighting, a different revolutionary development. Businessmen were saying, ". . . the commercial questions of the proper relations of manufacture and distribution are among the leading problems of the day. . . ."[29] The customary pattern of sale through wholesalers (or jobbers or agents) and retailers was being challenged in several ways that threatened the established order.

1. Mail order, or "catalogue," houses were buying from manufacturers and selling directly to consumers. These houses were not new but were taking a bigger share of the business.
2. Department stores were large enough to buy directly from manufacturers and to take sales away from single-line retailers.
3. The mail-order departments of city department stores were competing with small-town retailers.
4. Manufacturers were setting up their own distribution

[27] Industrial Commission, Vol. XIX, pp. 1120–26.
[28] *The Iron Age* (Nov. 22, 1900), p. 28f.
[29] *Ibid.* (Nov. 29, 1900), p. 45.

branches and cutting out wholesalers or agents and selling to consumers.

5. Groups of manufacturers were combining to establish distribution companies, often near-monopolies, to handle their products.

6. Wholesalers were doing a retail business.

The businessmen affected were not allowing these changes to be carried out peacefully. Wholesalers injured by direct sales to retailers and retailers injured by mail-order selling to consumers were roused to find means of fighting the groups threatening them. Offensive as well as defensive measures were adopted, generally through trade associations (discussed more fully in the next section), and there were calls for restrictive legislation, as in this eloquent address to the Illinois Retail Hardware Association in March, 1900:[30]

> A great deal has been said and written upon the piratic nature of department [stores] and catalogue houses. . . . Results, however, have demonstrated that the public has little interest in issues whose sole argument appears to be prompted by motives of self interest, and we have possibly been directing our efforts against the symptoms of a public disease while we should have applied the knife to the canker gnawing at the heart of our republic. If the propositions I am about to establish are true, which I believe they are, and will stand the test of every thinking man's moral convictions, then the responsibility of the evil does not rest alone with the men who are taking undue advantage of circumstances, but a considerable amount of it may be charged to the public blindness and indifference which unwisely creates or tolerates conditions under which either individuals or classes may take improper opportunities to so great an extent as to effect a decaying condition of the moral forces cementing our body politic, and its remedy will call for a more efficient degree of patriotism than that of firing bombs on [the] Fourth of July, and occasionally cheering the mention of great men's names.

Those who felt the competition of catalogue houses but recognized that the change in pattern was likely to persist were seeking methods for meeting the competition and were sharing their ideas for constructive counter measures. "The present problem for country merchants is how to successfully compete with catalogue houses. They are here to stay, and it is nonsense to think that they can be regulated by legislation."[31]

An enterprising hardware retailer in Oxford, Ohio, took a constructive approach that the journal of his trade, *The Iron Age*,[32] reported, believing it would be helpful to other retailers in meeting

[30] *Ibid.* (March 1, 1900), p. 43.
[31] *Ibid.* (May 10, 1900), p. 41.
[32] *Ibid.* (May 31, 1900), p. 45.

competition from catalogue houses. This particular merchant had offered customers the same prices that catalogues quoted and kept catalogues in his store for customers to consult, feeling that to ignore them would be to acknowledge that he could not meet their prices. He reported satisfactory results and believed he had developed good relations with his customers; he did not expect to stop mail-order buying, but hoped to hold his own both by offering comparable service and through his status as a local merchant.

In defense of department stores, John Wanamaker had this to say: [33]

> I contend that the department store development would not be here but for its service to society; that it has done a public service in retiring middlemen; that its organization neither denies rights to others nor claims privileges of state franchises, or favoritism of national tariff laws; that if there is any suffering from it it is by the pressure of competition, and not from the pressure of monopoly; that so long as competition is not suppressed by law, monopolies cannot exist in storekeeping, and that the one quarter of the globe that cannot be captured by trusts is most assuredly that of the mercantile trading world.

Wanamaker remarked that the evolution of mercantile business during the last quarter-century had been caused not by combinations of capital, corporations, or trusts, but by simplification.

> . . . the underlying basis of the new order of business and its principal claim for favor is that it distributes to the consumer in substance or cash compounded earnings hitherto wasted unnecessarily on middlemen. . . .

He added his belief that the American system of storekeeping was the most powerful factor yet discovered to compel minimum prices; that large stores were really "commercial universities"; and that they had not displaced small stores, citing the growth in Philadelphia of the number of stores in relation to the population. Furthermore, replying to an alleged taint of "incorporationism," he said only 5 per cent of the retail stores in the United States were incorporated.

Wholesalers, too, were trying to protect their threatened position. Hardware jobbers, for example, through their National Hardware Association, had allegedly accomplished a great deal in the year just passed: [34]

> They have emphasized what they regard as the correct principle that the jobber should be the channel through which goods are distributed to the retail merchant, and they have accordingly held many conferences with manufacturers

[33] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), pp. 128 and 127.

[34] *The Iron Age* (Jan. 4, 1900), p. 54f.

to induce them to make their method of quoting and their scheme of prices such as to be in the interest of the jobbers, and secure to them not only adequate profits, but also a large part of the trade which was formerly transacted directly between retailers and manufacturers.

A few manufacturers, such as the Pittsburgh Plate Glass Company, were bypassing both wholesalers and retailers, and had set up distribution branches to sell directly to consumers. This action had been partly retaliatory, as a result of ". . . the dictatorial conduct of the jobbers, who had a national association and endeavored to dictate to the manufacturers to what jobbers they should sell. In other cases the elimination of the jobber [was] merely a matter of evolution, of simplification." [35]

The type of company formed to sell the products of a number of competing manufacturers was not common, but was another irritant. The Continental Company, Ltd., for instance, said to have controlled sales for about 95 per cent of the screen door and window trade, was dissolved after about a year.[36] Reasons given included growing competition, failure to achieve economies, and antagonism resulting from high prices; also, significantly, "The disfavor with which combinations and pools are regarded by the trade was doubtless also something of an obstacle to the success of the plan. . . ." [37]

Aside from questions of organization and distribution channels, sales-minded executives were giving increasing attention to both firm and institutional advertising. All kinds of firms advertised in a wide variety of ways besides the press and direct mail. Producers sometimes chose strange media. The American Bicycle Company ran a full-page illustrated advertisement on the back page of the *Annals of the American Academy of Political and Social Science*.[38]

The Iron Age in its regular Hardware section usually included examples of cuts and texts that it considered worthwhile as models for retail advertising in various media. Its own advertising sections, for example December 27, 1900, ran to 148 pages. Most of the advertisements were small cards run by large and small firms, but there were a few full pages, usually taken by the big mergers. In a half-page advertisement with three cuts showing the mechanism of its cranes and hoists, Craig Ridgway and Son Company of Coatesville, Pennsylvania, ran a text that featured a nostalgic Christmas message

[35] Industrial Commission, Vol. XIX, p. 546.
[36] *The Commercial & Financial Chronicle* (Nov. 10, 1900), p. 965.
[37] *The Iron Age* (Nov. 8, 1900), p. 40.
[38] Vol. XV (Jan.–May, 1900).

and avoided any direct sales message — perhaps a groping approach to a public relations policy and institutional advertising.[39]

Business Associations

The contemporary urge of businessmen, chiefly manufacturers, to form combinations was reflected in the related interest of executives in all stages of industrial and commercial activity — manufacturing, wholesaling, and retailing — in forming or joining trade associations of various kinds. Two main classes of associations had developed: those dealing with labor relations (discussed in the section Relations with Employees) and those dealing with other interests such as defense against new forms of competition or the exchange of technical and trade information. Cutting across trade and industry lines was a third class of organization typified by the National Association of Manufacturers, and various boards of trade, which included industry associations and chambers of commerce. There were also civic groups, such as the Chicago Civic Federation, actively interested in business developments and generally concerned with exposing or seeking to regulate business activities that appeared to threaten the public interest.

While these various moves to join forces were, on the surface, co-operative, the basic motivation generally appeared to be co-operation *against* some outside group. In a period of general prosperity with new and apparently boundless opportunities, a feeling of hostility toward someone else seemed to be a dominant note. Jobbers fought manufacturers and vice versa; employers fought labor; single-line retailers fought department stores. Associations called themselves "defensive" or "protective," but they were as likely to be offensive. And even within associations, members often could not count on the loyalty of other members to support a common cause.

The trend to organize into associations was attracting widespread comment. For instance, *American Trade*, the publication of the N.A.M., said: [40]

> . . . the tendency to combine, to look to combination as the coming thing, and to tie by the combination as the lasting thing, is having its effect. And it has not escaped the attention of these New York manufacturers who are members, or who are joining the National Association, that the faster it grows the more evident does it become that the benefits to be derived from membership are more and more numerous and valuable.

[39] *The Iron Age* (Dec. 27, 1900), advt. p. 53.
[40] *American Trade* (Sept. 15, 1900), p. 182.

The Kansas Retail Hardware Dealers' Association was one of the many trade associations holding its first annual meeting in 1900. Its purpose was to become a link in a national chain that would be so powerful that those who trespassed upon the rights of the retail dealer would "cease their methods of doing business or lose the better part of their trade."[41] The members were objecting to the practices of hardware wholesalers who sold direct to consumers or to retail outlets other than specialized hardware stores. A second purpose of the Association was to permit members to become acquainted and exchange ideas on methods of doing business.

The Iowa Retail Hardware Dealers' Association, with an enterprising lady organizer, was making a determined move to strengthen itself in 1900 by increasing its membership. Objecting to price advances of the National Jobbers' Association and to jobbers who sold to other than hardware retailers, it said, "Our only hope to influence the situation for the better is in thorough and systematic organization."[42] This group recognized the lead in organizing taken by the Kansas retailers. "The influence of these [retail] associations is becoming more and more evident, and they are beginning to be recognized as a power which has to be taken into account by manufacturers and jobbers. . . ."[43]

Sometimes individuals who had been competitors had become friends through their associations. The president of the Southern Hardware Jobbers said, "This was not the case prior to the organization of this association, but having met together for the past eight or nine years in annual conventions, where we have exchanged experiences and discussed matters of mutual interest, we have learned to know each other better. . . ."[44]

On a different level was The Missouri and Kansas Zinc Miners' Association, slightly over a year old, which had organized in protest against the cavalier methods of ore buyers in setting the prices they would pay.[45] The Association had succeeded in getting higher, and profitable, prices for members.

Associations ran into trusts and had to fight them, too. The National Hardware Association, a large and influential group of jobbers and manufacturers from all over the country representing a wide field of products, at its sixth annual convention discussed how jobbers could co-operate with manufacturers to maintain prices

[41] *The Iron Age* (Jan. 18, 1900), p. 41.
[42] *Ibid.*, p. 40.
[43] *Ibid.* (Jan. 4, 1900), p. 54e.
[44] *Ibid.* (June 21, 1900), p. 55.
[45] *Ibid.* (Jan. 18, 1900), p. 8.

"especially where these are controlled by combination or other agreement."[46] Whereas "a certain combination" was reported to be giving ample protection to jobbers, the latter did not like certain restrictions imposed by the combination and were considering establishing their own factory in competition.[47]

Since price setting was one of the activities expected of business associations, customers of firm members waited in some suspense when they knew of association meetings. "The trade is on the tiptoe of expectation over the coming meeting of the Steel Rail makers and the possibility of an open market is being discussed quietly." The fact that the National Tube Company had declined to create an international association for regulating prices of merchant pipe was found worth mentioning.[48]

Some jobbers believed they were suffering at the hands of trusts, while trusts claimed that they had been formed in self-protection against jobbers. The president of the Southern Hardware Jobbers' Association at the tenth annual meeting in June, 1900, gave his strong views on trusts.[49]

> Since our last annual convention we have passed through a very phenomenal business experience. . . . The abominable trusts and combinations which have sprung up on all sides in so short a time have been followed with such startling advances and arbitrary and radical terms that it has been impossible to adapt ourselves to the change.
>
> * * *
>
> We fully appreciate the fact that the prices on many lines were entirely out of proportion to the cost of raw material, but the initiative reduction made by the American Steel & Wire Company was so arbitrary and unreasonable that the jobbers were justly displeased, and while they had to accept the situation, it was under protest.
>
> * * *
>
> [Since the company] practically controlled production of Wire and Nails, the jobbers had a perfect right to expect better protection at their hands. This reduction has resulted in a serious loss to many of us, and it only tends to show the importance and necessity of urging all trusts that have it in their power to raise and lower prices without an hour's notice, to such an extent as to cause serious loss to the jobber, to give a guarantee for a reasonable length of time against declines.

Jobbers' associations, both the Southern Jobbers and the National Association, had brought pressure and had succeeded in getting American Steel & Wire not only to revise its terms of sale, but to

[46] *Ibid.* (Nov. 29, 1900), p. 53.
[47] *Ibid.* (Dec. 6, 1900), p. 47.
[48] *Ibid.* (Sept. 20, 1900), p. 25.
[49] *Ibid.* (June 21, 1900), pp. 55–56.

agree to scrutinize more carefully its jobbers list to exclude direct sale to retailers. But a guest manufacturer spoke up at an annual association meeting to give his side of the issue. He believed that hardware jobbers had been responsible to a certain extent for the organization of trusts by manufacturers because of their pressure for lower prices. Thus they forced ". . . the manufacturers in self preservation to combine each with the other to see if some basis could not be established by which a fair price could be obtained for a first-class article, and a margin of profit remain in the hands of the manufacturers. Here was the real starting point of trusts which to-day are proving so annoying to the jobbers." [50]

In spite of the general appeal of associations to businessmen, some associations were dissolving and causing dismay to the business groups adversely affected. Dissolution of the Shafting Association caused the individual firms to cut prices to a near all-time low; six months previously they had been the highest ever. The Association had included all the large manufacturers of shafting in the country and had set prices for "the entire cold rolled, cold drawn and turned steel product." [51]

In the brass industry, it was said that "one of the most interesting" events was the dissolution of the Brass Association, to which all the large brass manufacturers of the country belonged and which had "maintained harmony among the great brass interests throughout the country. It was a means of pooling the interests to maintain prices." [52] Although all the participants had made money, the association had broken up because of threatened competition from plants being constructed and because of internal friction. But four of the largest constituents had merged into permanent form, incorporating as the American Brass Company.

Speculating on the future of trade associations, *The Iron Age* [53] said that while they had resulted from reckless competition and overproduction and subsequent agreements to regulate prices in a period of prosperity, the crucial test would come when business declined. They might then split up, for generally there was not a sufficiently strong dominant leader to preserve harmony.

One of the associations that cut across trade and industry lines and appealed especially to small businessmen, the National Association of Manufacturers, had been established in 1895. In 1900, the

[50] *Ibid.* (June 21, 1900), p. 57.
[51] *Ibid.* (Oct. 25, 1900), p. 32 .
[52] *Ibid.* (Sept. 27, 1900), p. 20.
[53] (Jan. 11, 1900), p. 38.

N.A.M. had about 1,200 members, including, it was said, some of the "greatest captains of industry," but most of its members were small firms; few were mentioned in Moody's *Manual* for the year. The Association represented a wide area; members from 23 states attended the 1900 Annual Convention in Boston.

One of its chief activities in 1900 was lobbying, responding to the growing recognition by businessmen of the extent to which government could control or benefit business and attempting to direct legislation in the ways businessmen considered most beneficial.[54]

Reflecting the current surge of business interest, the chief concern of the N.A.M. at this time was with foreign trade. "To facilitate this expansion of American trade and commerce the National Association of Manufacturers has its chief opportunity and its most important occupation," said the Honorable Roger Wolcott, former Governor of Massachusetts, speaker at the 1900 Convention.[55] Theodore C. Search, the president of the Association, said that the interdependence of different sections of the country had contributed to its motivation and that "the most important purpose of the Association is the encouragement of Federal legislation that is calculated to be broadly beneficial to the business interests of the country."[56]

The topics on the agenda for the 1900 convention (almost all related to legislation) and the Association's stand on them show its preoccupation with foreign trade:

The ship subsidy bill. Pro [Those against it were just ill-informed.]
Nicaragua Canal bill. Pro
Reciprocity treaties. Divided
Consular service reforms. Pro
Commercial possibilities in the Orient. Judged important
Foreign sample warehouses. Established several
International transportation. Tried to modify bills of lading
International freight bureau. Established for members
Bureau of information. Established as liaison in foreign trade
Publication department. Distributed Spanish edition of directory

[54] Headquarters were in Philadelphia, as were those of many other business, civic, and scholarly associations of the time. The president, Theodore C. Search, was head of the School of Industrial Art of Philadelphia and on the Board of the Philadelphia Bourse and former treasurer of J. P. Stetson & Company. The majority of the members attending the 1900 Annual Convention were from Pennsylvania. The Association's news organ, *American Trade*, was published in Philadelphia.

[55] N.A.M. *Proceedings*, 1900, p. 163.

[56] *Ibid.*, pp. 175 and 176.

Other subjects included were these:

Bill for a Federal Department of Commerce and Industry. Pro

Amendments to Interstate Commerce Law. Pro

State laws on "foreign" (out-of-state) corporations. Protection of members against such laws when they were the "foreigners"

Parcels Post law (for lower rates and higher weights). Pro

Securing a federal charter. Pro

Its relation to other business associations was explained in part as follows: [57]

> It happens now and then, when a consolidation of industrial enterprises is effected, that a membership in the National Association of Manufacturers disappears in the process. But it happens just as often, or oftener, that by a similar process of consolidation, and of the survival of the fittest, that some member of a real or imaginary "manufacturers'," or "protective" or "exporters'" association, so-called, comes over to the National Association as the best, perhaps the only, organization of the kind which can really do him any good in the long run.

The N.A.M. saw itself in a role in United States life that General Motors was later to claim. Apropos of the Association's wish to obtain a federal charter, it was asserted: "What we are doing is for the good of the nation, the whole nation, because what is for our good must be for all." [58] "By furthering the interests of its members [the N.A.M.] in effect promotes the welfare of the nation." [59]

The National Board of Trade, also of Philadelphia, was another association cutting across industry lines and avowedly established for lobbying purposes. It united local and state boards of trade and chambers of commerce. As a lobbying body it appropriately held most of its annual meetings in Washington, although headquarters were in Philadelphia. Its purposes were: [60]

> to secure unity and harmony of action in reference to commercial usages, customs and laws, and especially . . . to secure the proper consideration of questions pertaining to financial, commercial and industrial interests of the country at large. . . .

The specific interests of the N.B.T. coincided with many of those of the N.A.M., but it was currently excited also about government distribution of free seeds. The group was to come near dissolution in 1902, when members questioned its effectiveness as a lobby, but

[57] *American Trade* (July 15, 1900), p. 149.
[58] N.A.M. *Proceedings*, 1900, p. 76.
[59] *Ibid.*, p. 170.
[60] National Board of Trade, *Proceedings*, 1902, p. xi.

N.B.T. members nevertheless appreciated the fact that their group had played a pioneering role as a business association. The formation of the N.B.T. in 1868 had been: [61]

> an event of much importance to the commercial world, and its deliberations from year to year have demonstrated the benefit of co-operation and united action among business men.
>
> It opened the way to the organization of national trade organizations looking to the development of individual industrial lines, so that at the present time [1902] there are over seventy such bodies in the United States, each one devoted to the particular interest it represents.

On the other hand, the wide scope of subjects of the National Board of Trade had diluted its effectiveness, ". . . and probably for this reason the recommendations of the Board have not commanded the attention of legislative bodies or secured such results as might have been expected from the deliberations of such a representative body of businessmen."

That associations were being formed with little if any justification except to benefit the individual promoting them was claimed by some members of the N.A.M., who protested that they were being urged to join too many associations. Not all executives appeared to be in that predicament, however, as witnessed by the fact that the Philadelphia Bourse felt it worthwhile to organize a special service committee for businessmen who were not members of any trade association.[62]

Another kind of organization that businessmen were calling on for specific information and advice on problems relating to foreign trade was the Philadelphia Commercial Museum. According to its director, this was the only existing institution which, "operating on unselfish and patriotic lines," had been created with national and international scope "for the sole purpose of fostering American commerce." [63]

Besides these associations that businessmen were forming to promote their interests, there were associations that seemingly were formed to harass them. For example, there was the National Consumers' League, whose chief purpose was "to organize public opinion against the sweatshop." [64]

[61] *Ibid.*, p. 200.
[62] Philadelphia Bourse, *Tenth Annual Report*, Submitted May 14, 1901, p. 13.
[63] Industrial Commission, Vol. XIV, *Capital and Labor*, p. 441.
[64] *Ibid.*, p. 129.

The goal of the ambitious businessman was to become a "captain of industry," the cliché of the time for describing the head of a trust or big business. But these captains were accorded a mixed reception by the public. Hailed as brilliant and of heroic stature in some circles, they were denounced as ruthless or incompetent in others.

There was a current controversy, reported at some length in *The Iron Age*, over whether there was a quality of "greatness" in business leaders.[65] This controversy had been stirred up by a professor of literature at the University of Chicago, who had described John D. Rockefeller and George M. Pullman as creative geniuses to be compared with Shakespeare. "Western intellectual circles," the journal said, had satirically made similar comparisons: Homer and Russell Sage, Milton and Havemeyer, Goethe and Mrs. Hetty Green. These circles also had suggested that the professor's judgment might have been influenced by Rockefeller's contributions to the university.

In an editorial comment *The Iron Age* came to the defense of the businessman and his place in the current "era of utility," saying that intellectuals "in contemplating an extraordinarily successful business man would be unable to fully appreciate the man because of their highly cultivated antipathy to his dollars." And, "In the vast work of utilizing the crude resources of the earth to the highest advantage of its inhabitants, leaders of men of a new type have sprung into existence. They have been aptly termed captains of industry." It went on to say that among the businessmen of the day were those whose achievements ranked them with artists of the past and "among these men of creative and constructive genius the greatest are Americans."

Another observer came to the defense of the businessman in the following terms:[66]

> The man of affairs has need for as much intelligence, as much force of mind, as much character, as much judgment, as he who follows any other profession. One of the benefits already accruing to society from this new educational movement, it is urged with much force, is that we are learning to reserve for the business man the place in public estimation which rightfully belongs to him — that we are ceasing to sacrifice him in our esteem to those who exercise the so called "liberal" professions.

[65] *The Iron Age* (Oct. 18, 1900), p. 26.

[66] Review of *Business Education and Accountancy*, by Charles Waldo Haskins (Harper & Brothers), in *The Commercial & Financial Chronicle* (May 7, 1904), p. 1762. Quotation from p. 1764.

In a specific instance, the different attitudes toward a businessman in difficulties showed up in comments of two current periodicals. Referring to Thomas A. McIntyre, broker, member of the N.A.M., and promoter, several of whose promotions had collapsed, *American Trade* [67] noted noncommittally that he was "uncommonly busy reorganizing the affairs" of one of his companies. The *United States Investor*,[68] however, charged him with having made a handsome rake-off in his promotions and reported that "hard things" were being said of him, and that some victims of one of his promotions had called it a "swindle."

The fact that the modern, large-scale enterprise demanded special qualifications in an administrator was recognized by thoughtful observers. The Industrial Commission gave the following summary of such qualifications: [69]

> It must be headed by a great executive officer, who must have precisely that number and character of subordinates, in all the various grades, which may be required to make his direction fruitful. Where the system involves the union of accessory establishments, or the combination of many plants of a similar character, the need of capable direction and of perfect organization to insure economical operation becomes still greater. The larger the army, the greater the general needed for its command.

The Commission described the typical administrator in perhaps ideal terms.[70]

> Increased skill in management has accompanied the industrial improvement of the last few decades in all directions, and has resulted in more effective division of labor and more complete specialization of work. In no other country has skill in the organization and administration of productive enterprises been so highly developed as in the United States. Our "captains of industry" are quick but sure in their judgments, self-reliant, and of boundless energy. They are less conservative than their competitors abroad, more ready to seize upon improved methods, and to incur risks where there is a fair chance of conspicuous success.

The Commission said, further, that one advantage of combination was the superior management resulting.[71] The association of several efficient men yielded valuable ideas, the opportunity to distribute men according to their special talents, and the ability to pay high salaries to attract the best men. There was one drawback:

[67] (Oct. 1, 1900), p. 189.
[68] (Apr. 21, 1900), p. 497.
[69] Industrial Commission, Vol. XIX, p. 521.
[70] *Ibid.*, p. 519.
[71] *Ibid.*, p. 608.

combinations might have to overcome a lack of personal interest on the part of their executives.

A hindsight view of the general caliber of the management of these new mergers was that an extraordinary number of successes were due to "astute business leadership" and not to monopoly or unfair competition.[72] "This striking change in the leadership of a large proportion of the mergers, bringing with it substantial and relatively stable profits, has received almost no attention."

A popular publication of the time, *The Successful Man of Business*,[73] was devoted to management precepts, but offered little practical advice to the group for which it was written. This volume had been published in 1898, went into a second edition in 1899, and was reviewed for businessmen in 1900. It was chiefly inspirational, largely composed of poetic quotations, and implied that the chief requirements were the abstract virtues of courage and honesty. The ideal businessman was self-made and became a millionaire. The author emphasized the threats to executive health from the strains of managing big undertakings and the need for vacations. He gave great weight to the value businessmen could derive from practical advice from their wives.[74]

> Many a business man commits an unpardonable error by ignoring the advice of the person who, through the tie of marital relation, is more closely allied and interested than the outside world, and who, if given the opportunity to display her intuition may prove a tower of strength in time of need.
>
> I of course allude to the wife, who shares in all the future prosperity or adversity of her husband.

The variety of problems facing the head of a big trust was recognized to be staggering, and an apparent scarcity of qualified individuals to fill the demands of top positions gave rise to expressions like the following: [75]

> For there the problems of control, organization, buying, selling, study of markets, study of methods, employment of improved machinery and of improved scientific methods, all require the very hardest work by the most talented men. If these men start in with the consolidation, having come to it from some of the constituent companies, very good. If they do not, this superior class of men must be obtained. The problem of industrial management, in short, has not yet been reduced to rule, as say in the case of railroading or banking; and [the problems] are much harder to master, partly because they

[72] Shaw Livermore, "The Success of Industrial Mergers," *The Quarterly Journal of Economics* (Nov., 1935), p. 70.

[73] By Benjamin Wood (New York: Brentano's, 1899).

[74] *Ibid.*, pp. 148 and 149.

[75] *American Trade* (Aug. 15, 1900), p. 165.

are now for the most part new, and partly because manufacturing, taken broadly and considering its many important branches, is harder than railroading or banking. The rewards may also be made much greater. . . .

Scientific Management was not yet receiving wide attention, although Frederick W. Taylor in 1895 had presented before the American Society of Mechanical Engineers a report on his initial studies.[76]

Whether the sheer size of some of the new combinations was greater than the country's businessmen could handle was a question for discussion in financial journals and must have been to the men themselves. Commenting on the rumored merger of four Vanderbilt railroad lines that would result in a total capital of at least one billion dollars, the *United States Investor* had said:[77]

Now the question is, Is it in the power of any one set of men to properly handle a system of over 18,000 miles of road, representing at par an investment of over a thousand million dollars? Perhaps the opportunity will be presented to the future to demonstrate whether this is possible or not. A thousand million looks very large now, but possibly in 10 or 20 years hence that will not seem an overpowering amount. On the other hand, it may be demonstrated to be beyond the capacity of the human machine to stand the strain. Certainly there is no profession in the world that has prematurely killed off more of its adherents than railroading in recent years.

At least a few contemporary observers expressed doubt that prevailing administrative skills were equal to demands of the times. There were editorials such as "Disappointments in Industrial Consolidations" that pointed out how managers had taken advantage of their positions to raise prices, causing demand to fall and stocks to pile up. This editorial added:[78]

As to the touch between the management of industrial combinations and dealers, arbitrary rules, often enforced with scant courtesy by subordinates, have largely taken the place of the good understandings which formerly existed between manufacturers and their customers. This is "business" no doubt. . . .

* * *

As to management it has not thus far been shown that in the great consolidations there is inerrant wisdom in a multitude of counselors.

A criticism of the capabilities of specific managements was also voiced by the *United States Investor*. With some insight as well as foresight it editorialized on the lack of success of new automobile companies.[79]

[76] Carroll R. Daugherty, *Labor Problems in American Industry* (Boston, 1936), p. 694.

[77] "The Railroad Monopolies" (Jan. 27, 1900), p. 97.

[78] *The Iron Age* (July 19, 1900), pp. 13 and 14.

[79] (Sept. 7, 1901), p. 1335.

It is certainly too bad that what promises to some day be the vehicle of transportation should, at practically the beginning of its use in a commercial way, incur the distrust of the public. The automobile companies thus far have invariably been failures, and the cause . . . is to a large degree bad management.

Among their other problems, individuals who were merging their firms experienced serious personal maladjustments. Often they had been keen competitors and now had to become co-operators. In mergers promoted by outsiders, they sometimes found their properties had not been valued consistently; some were shrewder than others in negotiating the valuation to be set and the form of payment they would accept. Their relative status in the management hierarchy of the new organization also must have been a source of friction. There could be only one head, and the number of vice presidents, though often large, might be smaller than the number of firms included. Outsiders with no practical experience often were brought in to fill executive or directorial positions. Lawyers, financiers, and promoters typically were appearing as executives or directors.

As a consequence of such changes, top management friction and high management turnover were not uncommon in big businesses and new mergers. In American Steel & Wire, a $90 million merger of 1899, two investment bankers' representatives on the board were said to have resigned because, even after a bitter fight, they could not force the resignation of John W. Gates, the chairman.[80] Later Gates did resign as chairman but remained on the board, while the two directors were replaced by men who did not represent the banking firm.[81] Such conflicts between financial and operating interests were common.

Another characteristic of the period was the emergence of a group of displaced managers, individuals who had sold their firms to trusts or who were discharged as one of the economies of consolidation. Not infrequently these men formed new, competing firms, sometimes simply for the purpose of selling out again, but often to continue to use their business experience and to use new, improved methods that placed them at a competitive advantage. But new opportunities were not always open. Many engineers lost their jobs in consolidations when central engineering staffs could serve the whole new firm, and they were slow in finding new openings in spite of the

[80] *The Iron Age* (May 10, 1900), p. 32.
[81] *Ibid.* (May 17, 1900), p. 10.

demands for engineers.[82] Those retained, of course, had the advantage of access to increased capital, enabling them to carry out projects that could not have been financed by smaller firms.

The activities of some businessmen were involving them in areas in which ethics or legal and moral responsibilities were involved. The standards of 1900 appear to have been not far different from those of today, although not, perhaps, so generally accepted. Some heads of trusts had been found to have speculated in securities of their corporations, but James B. Dill thought this was not characteristic of the ideal captain of industry.[83]

> I differ with any one who asserts that this tendency to speculate in stocks of the company is often found . . . in officers of corporations of standing and importance. . . .
>
> * * *
>
> The great captains of industry do not attempt to be great captains in speculation at the same time and in one and the same transaction.

Captains of industry were having to concern themselves with finding and training assistants, successors, and other management and engineering personnel. "Long headed" managers, it was being said, had been "training up young men in the ways and ideas of the firm, so that there should always be a growing crop of promising young men ready to assume responsibilities and duties as the older men dropped out."[84] But these men often were not considered interchangeable between industries, because individual problems varied so widely. "Accidents of birth and station count but little, for the large concerns have outgrown that family idea so prevalent abroad, and so fatal to ambition." The belief was current that every large concern owed its success to a strong individual who had trained a body of able assistants, and the man who kept his knowledge to himself was outmoded.

Any possible bad effects of nepotism were less likely to affect big business than small, it was thought, for in the latter, ownership was likely to pass from father to son even if he had no ability. And in big business, even if managerial positions were given to ineffectual relatives and friends, the positions were likely to be purely honorary, with little power. The Industrial Commission found that the civil service system of promotion was common in big business, and saw

[82] "Trusts and Their Relation to the Engineer," *The Iron Age* (Aug. 30, 1900), p. 8.

[83] "Dangerous Tendencies in Recent Consolidations," *The Iron Age* (Jan. 11, 1900), p. 5. Quotation from p. 7.

[84] *The Iron Age* (March 29, 1900), p. 17.

a danger that there might arise a tendency to "operate by rule," and that second-rate men might become entrenched in their jobs.[85]

Employers were looking more and more to educational institutions for recruits trained in commercial and administrative arts, but were finding that there had been a recent decline in the output of such institutions. There were only a few collegiate institutions, such as Pennsylvania, California, Chicago, and Columbia, specializing in commercial fields, and those had few students. Businessmen and nonbusinessmen were beginning to recognize the need for more of such schools and for getting students to attend.[86]

The demand for men with engineering training was as keen in 1900 as now. The Manufacturers' Association of New York in 1900 voted an annual scholarship of $500 for the "education of promising young men in technical pursuits."[87] The value of this project had been shown in the recent experience of a large corporation that recently had wished to hire a dozen young scientific men at its various branches. It sent letters to M.I.T., Stevens, and at least four other technical schools in the East, only to bring out the one monotonous reply that every single member of the classes graduated within the last year or two had been "satisfactorily placed in the employ of big corporations just as soon as they had been graduated . . . ."

A characteristic manifestation of interest in education for business was displayed by an association of foundrymen, which resolved:[88]

> "that the industry had arrived at a point where there is a demand for managers properly trained in the principles of scientific and commercial founding, and that a representative body such as the American Foundrymen's Association, be requested to draw the attention of institutions of learning in the country to this fact and urge them to take the necessary steps to supply the demand. . . ." [A commentator said] We are, indeed, drawing near to that point when so much is expected of a foreman, chemist, superintendent or manager that he cannot hope to obtain all the necessary knowledge by the ordinary process of growing up with his work and learning to do what his predecessors were wont to do.

In 1900, as now, it appeared that college men, when applying for positions, were likely to look for "a situation somewhere near the head of the firm" and were not always satisfied to start at the bottom.[89] One precept for the novice of 1900 was: "Let him feel that

[85] Industrial Commission, Vol. XIX, p. 636.

[86] "Commercial Education in the United States," by Henry A. Stimson, D.D., *The Commercial & Financial Chronicle* (March 3, 1900), p. 405.

[87] *American Trade* (Oct. 1, 1900), p. 189.

[88] "The American Foundrymen's Association, Fifth Annual Convention," *The Iron Age* (June 14, 1900), p. 5. Quotation from pp. 8 and 9.

[89] N.A.M. *Proceedings*, 1900, p. 116.

his whole heart and soul are wrapped up in the interests of his employer . . . ."

Business publications did what they could to meet the demand for management education. An article on foundry management, appearing in *The Iron Age*, covered working conditions, tools, and materials; division of labor; and qualifications of a good foreman, stressing the importance of a knowledge of good personnel relationships in terms useful today.[90] The foreman should be:

> A man of broad experience, good education and address, temperate in habits and language, firm and polite in his demeanor . . . a student of human nature and [with] executive ability of a broad gauge character at his command. . . .

Business leaders of the day were also much concerned over the locus of top control in corporations – whether it should be vested in executives, directors, or stockholders. Outsiders were beginning to investigate common practice and theorize on the ideal. An editorial on the functions, actual and theoretical, of boards of directors gave the view that "Boards of directors rarely direct." [91] It held that to perform their duties faithfully would require more time than outside directors could give, and that officials and other managers were the ones competent and actually in a position to shape policy. It made a significant comment on the growing separation of ownership and control, noting that stockholders rarely availed themselves of their right to vote on choice of management at annual meetings except when rival factions were contesting control.

The Industrial Commission [92] developed the theme that although in many combines the number of stockholders was large, the exercise of power was entrusted to comparatively few. If twenty establishments of equal strength were merged, it was probable that in a short time control would be in the hands of a few. The number of stockholders might increase a hundredfold and the wealth be thereby distributed, but actual control would be concentrated. " . . . this exercise of power, however, must be with the consent of the stockholders."

And James B. Dill said, "The company which fails to put men in its board who feel themselves charged with a large and public duty toward its stockholders should fail to find a market for its securities." [93]

[90] "Foundry Management," by James A. Murphy (June 14, 1900), p. 26b.
[91] *The Iron Age* (Oct. 4, 1900), p. 22.
[92] Vol. XIX, p. 637.
[93] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 112.

Financiering seems to be a more suitable word than financing to describe the vast promotions of the period, and it was the common one at that time.[94] The particular financiering problems of most concern to businessmen who were participating, as well as those on the sidelines, were: (1) determining the appropriate capital structures for their firms; (2) raising capital and dealing with commercial and investment bankers, watching the dispersion of ownership and control, and catering to the new race of stockticker watchers called "tape-worms" (including themselves); and (3) adopting improved accounting techniques and financial policy while at the same time striving to shield operating results from "outsiders."

According to James B. Dill, the ideal new captain of industry had to have special qualifications as a financier: [95]

> Industrial combinations are producing a new class of financiers, a new order of corporation men. Business character and personal character cannot, in the long run, differentiate widely. Every corporation which attempts to go to the public and to place its securities should be held to the responsibility of selecting men of integrity and standing as its officers and directors.

The size of authorized capitalizations of new mergers was as startling as the prevalence of combinations; no longer was a 25-million-dollar firm a rarity. "Overcapitalization" was the common charge and the businessman of 1900 was evincing great interest in the subject. Published figures were frequently as misleading as they were impressive, and were criticized for this reason, as well as others. The par value for a trust's capital seldom represented tangible asset value or invested capital, but a much higher figure: [96]

> The plan which they have most commonly followed is to issue preferred stock to an amount equal to the tangible assets, and at least an equal amount of common stock, which was broadly said to represent good will and opportunity.

The New York and Amsterdam investment banker, D. G. Boissevain, stated: [97]

[94] "The Finance[sic]ering of Trusts" was the subject of a paper read before the American Economic Association (*N. Y. Financier* [Jan. 1, 1900], p. 14). See also *United States Investor* (Dec. 23, 1899), p. 1749: ". . . peculiar methods of financiering," and "who is responsible for such financiering as this?"

[95] "Industrials as Investments for Small Capital," *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 112.

[96] Industrial Commission, Vol. XIX, p. 617.

[97] Letter in *The* [London] *Economist* (March 31, 1900), p. 465.

It is generally admitted that the preferred stock of these industrial combinations represents the real estate, buildings, plant, and machinery, whereas much of the common stock is given away, and merely represents the goodwill of the industry.

Examination of contemporary flotation records confirms the assertion that common stock frequently was given away, usually as a bonus with the preferred or to the promoters for their services.

The common method of trust formation contributed to the setting of inflated valuations and partly accounted for the ease of carrying out the alleged overcapitalizations. It was common for promoters of a merger, whether inside or outside, to negotiate separately with the participants with respect to, first, the valuation to be set on their properties and, second, the consideration they would accept in payment for them, that is, whether cash, securities of the new combine, or both. The promoter might offer to set a high valuation in order to induce an owner to enter a combine, making an offer "not in human nature to refuse,"[98] and the owner might be willing to accept securities in lieu of cash if the amount appeared to be generous.

Many businessmen of the day thought the question of the relative size of capitalization to assets was of little consequence. If the par value of stock issued was only three or four times the cash value of the plants concerned, there was no special harm done. "If the plant shows that its earning capacity is sufficient to pay dividends on the large capitalization, the stock will hold its value fairly well, and the capitalization is justified."[99]

Whether this arrangement was deceptive or not was the subject of debate, defenders claiming that any sophisticated investor should know that common stock did not represent fixed assets. *The Iron Age*[100] said that the usual argument against trusts was their overcapitalization, but that no one took the nominal capital figure seriously. Common stock "confessedly in most cases" represented goodwill and other intangibles and its actual value depended on earnings.

The popular accounting practice at the time for handling these overcapitalizations was to carry relatively large goodwill items on balance sheets. Less straightforward practice was to overvalue the tangible assets. The more conservative managements, while apparently not really objecting to this practice of writing up goodwill

[98] *United States Investor* (May 5, 1900), p. 564.
[99] Industrial Commission, Vol. I, "Review of Evidence," p. 12.
[100] *The Iron Age* (Aug. 23, 1900), p. 17.

initially, set about writing it off as profits allowed, reinvesting earnings and building up surplus and reserves, rather than paying out large dividends at once. The dearth of such conservative managements contributed to the delay that industrial common stocks experienced in achieving investment status. In 1900 an industrial common stock was practically synonymous with a speculation.

"Water" was the term commonly used to refer to this difference between the net value of tangible assets and nominal issued capital. Inventing new figures of speech around the concept was a challenge that critics of mergers met with some success. Trusts were a "centralization of power in the hands of a few men 'surrounded by water.'"[101] And a rather mixed metaphor came from James B. Dill:[102]

> As long as the American public are willing to gamble with the industrial interests of the country, just so long will the promoter force the water into the great arteries of trade, subverting the great industries of the nation into the mere tools for the gambler and the speculator, eventually resulting in the great injury to a nation of industries.

The popularity and insidiousness of the practice of watering stock were suggested in this quotation: "But depriving a trust of its stock-watering feature is almost the same as depriving a venomous serpent of its fangs."[103]

Conyngton[104] had a section on watered stock, describing it without real criticism, except to point out that some states did not allow it, but that the laws were "frequently evaded." He included stock dividends as one kind of watered stock, and indicated some of the reasons for issuing it, calling it "fictitious" stock, put out by franchise companies which wished to keep their dividends at an apparently low rate in order not to attract public attention and possible legislative interference and agitation for public ownership. "In many other cases," he said, "stock is judiciously 'watered' to prevent rivals, or possible competitors, from knowing the real profits of the business."

For putting through the ambitious capitalization plans of the day commercial and investment bankers were called in to form supporting syndicates, and the cumulation of demands on bankers was reaching new highs, as were their opportunities for profits and

[101] Letter in *The Iron Age* (April 12, 1900), p. 21.

[102] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 111.

[103] "Trusts Here and Abroad," *United States Investor* (Aug. 24, 1901), p. 1269.

[104] *Conyngton on Business Corporations*, p. 23.

their risks. It was currently charged that banks were becoming "merely annexes of syndicate operations." "The change from commercial to syndicate banking was an inevitable outgrowth of industrial and financial expansion."[105] In addition, it was believed that banks frequently were themselves parts of a "community of interest," with or without actual merger.

One cause for the decline in number of new promotions in the latter part of 1899 was said to be the difficulty promoters were facing of raising cash to finance merger deals. Financing was also getting more difficult because conservative bankers looked with disfavor on industrial securities as collateral.[106]

Not all the large capitalizations announced were actually carried to completion at the full amount. American Hide and Leather cut its capital from the $70 million originally announced to $45 million. The projected U. S. Worsted Company, originally authorized $70 million, decided to issue $36 million, and finally was abandoned, excessive fees demanded by the promoters said to have been a contributing cause. Another $70 million firm that was carried through in spite of "unfavorable" conditions was the American Bridge Company. "The fact that industrial consolidations can be successfully carried through during a period of adverse trade conditions illustrates most powerfully the tendency of the times."[107]

All these new promotions added up to tremendous activity on the stock exchanges, whose fluctuations and high volumes of trade businessmen were following closely. This was a time of new highs in sales of all kinds of securities, old and new, and industrials as well as others. Although sales in 1900 represented a decline from the 1899 peak, they were higher than in any earlier year with respect to number of transactions and total dollar values. Activity on the New York Stock Exchange illustrates the extent of the boom.[108]

Number and Value of Shares Sold at the New York Stock Exchange

	1897	1898	1899	1900
Stocks, shares (millions)	77	113	176	138
Average Price	$ 67.0	$ 72.7	$ 78.6	$ 69.2
Value, approx. (millions)	$ 4,974	$8,187	$13,429	$ 9,249

"Increasing delirium" was said to be characteristic of Wall Street, with all classes of the public being attracted. "The person with

[105] *The Financier* (Oct. 28, 1901), p. 1448.
[106] *The Iron Age* (July 19, 1900), p. 14.
[107] *Ibid.* (May 24, 1900), p. 27.
[108] *The Commercial & Financial Chronicle* (Jan. 12, 1901), p. 64.

much money, and the person with little, was prone to try his hand in Wall Street (and for the purpose of this article this term includes also State street and Chestnut street)." [109]

The *United States Investor* regularly printed answers to queries on the investment status and prospects of the securities of large and small companies. Requests came from large cities and small towns and often showed a considerable sophistication on the part of writers, generally holding small amounts but some with large holdings. From Newport, Kentucky, for instance, came this typical request: "I bought a few hundred shares of United States Oil Company stock in the last slump at 18¾. Would you advise me to lay the stuff away, or sell out on the first good advance?" [110]

Even the more conservative firms shared in the speculative aura surrounding mergers and consequently were slow to gain investment status. Popular distrust of combinations and fear of hostile legislation made it likely that some industrial shares did not have the market value to which their earning capacity entitled them.[111] The sheer novelty of industrial securities was one cause for suspicion, according to F. B. Thurber, a New York merchant: [112]

> Wall street has got to educate itself in a variety of industries. It used to study railroading and transportation only, paying but little attention to the methods, details, and statistics of individual industries. In the near future we must inform ourselves in a general way, at least, as to steel billets, barbed wire, freight cars, paper bags, baking powder, electric and air power cabs, passenger and freight elevators, hard-rubber goods, typewriting machines, smelters, cigars, cigarettes, beet-root sugar, pumps, potteries, etc. Our horizon is widening. . . .

Distrust was chiefly directed to "overcapitalization, improper accounting, stock market gambling by trust officials in the securities of their own companies, deliberate villainy on the part of the said officials in their efforts to manipulate the stock market, etc." The large corporation and the "industrial" had come to stay, but they would not be a success unless "conservatively capitalized and honestly managed." [113]

It was accepted practice for promoters or individuals directly connected with a promotion to support the market for a time following the original flotation of securities whether the stock was a direct sale by the issuer or was being liquidated by a promoter or other

[109] *United States Investor* (Jan. 27, 1900), p. 104.
[110] *Ibid.* (Jan. 20, 1900), p. 88.
[111] Industrial Commission, Vol. XIX, p. 619.
[112] *Ibid.*, Vol. 1, "Testimony," p. 7, quoting from a circular of Watson & Gibson, New York bankers and brokers.
[113] *United States Investor* (May 5, 1900), pp. 564–65.

individual participant. Failure to do this made the company suspect and its securities speculative. Answering a query sent to it, the *United States Investor* commented: [114]

> Both classes of Union Bag & Paper stock are left almost entirely alone to find their way as best they can in a market which is notedly averse to practically unknown industrials of this class. The lack of support which has characterized these securities from their first appearance can be credited to an absence of confidence in the ability of the Union Bag & Paper Company plants to come up to expectations.

The tremendous growth in share trading meant that ownership was spreading and more people were becoming stockholders in industry. But corporations generally did not publish the number of their stockholders, much less the concentration of holdings in management hands. Individuals most likely to know of typical situations of spreading ownership were in disagreement. Yet the question of spreading ownership was attracting considerable attention. Views of John R. Dos Passos are indicative of the trends, but should be taken with a grain of salt.[115]

> Today [December, 1899] every large corporation in this country has thousands of stockholders, and every substantial blow aimed against corporations is a blow aimed against the middlemen, the men of small means, the conservative men, the thousands and thousands of stockholders who have invested their money in these corporations, the young and old, the widow and the infant, the trustee and the executor. . . . [Millionaires] do not hold their millions and millions of dollars in these large corporations.

Another of the most active promoters, Judge William H. Moore, said: [116]

> The general impression is that in the organizing of these large companies there is a great concentration of power. On the other hand, it is a distribution of power; and instead of a few persons owning the various companies, the stock is widely distributed.

But Francis L. Stetson, another lawyer-promoter, held a different view of the current extent of the spread of ownership: [117]

> . . . nine-tenths of the corporations are controlled by boards of directors which either own or absolutely represent a large majority of the stock. This theory that there is a large body of unknown stockholders that have got particular interests that they want to control and can not do it because they are fettered by a board of directors without any substantial interest is absolutely fictitious.

[114] (Jan. 27, 1900), p. 111.
[115] Industrial Commission, Vol. I, "Testimony," pp. 1164–65.
[116] *Ibid.*, p. 966.
[117] *Ibid.*, p. 973.

The interest and the agonies are in the board of directors, and they are not in the stockholders.

The advantages of wide dispersion of stock ownership were noted by James B. Dill: [118]

The safety of industrials lies in the investment by the small capitalist [with $100 to $10,000 to invest] rather than the large capitalist because, so long as the control of these large corporations is wholly in the hands of the large capitalist the corporations themselves may be managed for the best interests of the large capitalist rather than for the individual stockholders and the country.

And the president of the N.A.M. had said: [119]

I think . . . that by the great distribution of capital stock . . . a great many of our people, more than have hitherto held any interest in manufacturing business, will hold some of this stock and become interested in a way that they never were before.

Whether or not most stockholders really were interested in more than stock prices was debatable. Dos Passos believed that if stockholders showed as little interest in their properties as currently seemed to be the case, their powers would be taken over by voting trusts.[120]

Public Relations and Public Reporting

The art of public relations was not far advanced in 1900. Two segments of the public whose influence some businessmen particularly distrusted, then as now, and against whom they were being warned, were foreigners and academicians. The views of these two groups, some believed, showed "a pronounced drift toward socialism." [121]

We have become accustomed in America to observe among students of economics a pronounced desire to fly from well-known evils at home to methods which apparently work well abroad. Government reports, the essays for doctor's degrees, the elaborate treatises of our professors of economics, the writings of reformers and of journalists on the wing, all breathe an admiration for the well regulated systems in vogue in Europe.

A few businessmen, however, did believe that it was worth while to seek good public relations and woo public support of measures

[118] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 115.
[119] Industrial Commission, Vol. VII, *Capital and Labor*, "Testimony," p. 128.
[120] *Ibid.*, Vol. I, "Testimony," p. 1175.
[121] *The Iron Age* (June 28, 1900), p. 17.

for which they were lobbying. One politician attributed to businessmen a considerable awareness of the importance of influencing public opinion, and demonstrated his own public relations policy of appealing to "right thinking" people to protect "the public, including corporations." [122]

The public's concern in current business developments was also set forth in a speech by James B. Dill, who warned against "hysterical and unwise legislation" and voiced the need for "an enlightened public opinion." [123]

In a more direct way, certain businessmen saw that good public relations would make a receptive market for securities, which was important for the many new promotions of the day. It was also recognized in many quarters that good public relations would promote sales, especially of consumers' goods. The methods that businessmen used to implement these immediate aims included not only paid advertising, but also statements to the press and to stockholders about certain details of their businesses.

Businessmen generally, however, did not keep stockholders informed of the results of operation. This matter was being investigated by the Industrial Commission, and there was fear of resulting recommendations for legal controls. Federal and state laws and stock exchange regulations as yet did not require detailed reporting, and there was little policing of even the minimum requirements that existed. Despite these circumstances, the techniques of measuring operating results were becoming of increasing concern. Executives were giving more attention to accounting as a tool for management and to accountancy as a profession: [124]

> . . . the greatly increasing complications brought about by consolidations and enormous capitalizations, call for special skill in the management of details.
>
> The rising tide of recognition of the sharp-featured, keen-eyed individual who has been patiently hammering at the door of commerce, urging the importance of a better system of detail, and the facing of actual conditions constantly (instead of at intervals, of necessity in most cases too late), should be hailed with welcome by all business men who desire to know the true position of their affairs, and to keep within a safe and conservative course.

• • •

[122] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 96.

[123] "Dangerous Tendencies in Recent Consolidations," delivered before Ithaca meeting of American Economic Association and reported in *The Iron Age* (Jan. 11, 1900), p. 5.

[124] "Modern Accounting," letter to editor, *United States Investor* (May 13, 1899), p. 603.

Public confidence must depend largely upon the general experience, integrity and character of the accountant.

Accounting practice was far from standardized, and individual practice was eliciting criticism such as this: [125]

We do not like Pacific Mail book-keeping, and never did, the company's showing each year being largely what C. P. Huntington and his associates desire it to be, they owning a very heavy majority interest.

Since railroads, typically, gave out more information to stockholders than did industrial companies, it was the latter group that was most often condemned whenever one of its number became subject to criticism. An editorial generalized on "The Industrial Companies," and brought out the need for more publicity when Republic Steel revealed that it had experienced a profit decline of $3 million, when it had been giving an appearance of prosperity. Saying that banks were becoming more cautious in accepting industrial stocks as security for loans, the paper went on to observe that industrial corporations were treating the legitimate interests of finance as of no consequence to them, other than to act as reservoirs from which to draw funds for speculation.[126]

Financial and other journals for years had been pleading for more information from publicly held corporations. Typical was a comment concerning the transfer of stock of Amalgamated Copper from the curb to the unlisted department of the New York Stock Exchange. It was said that with this move a faint hope had been expressed that light would be shed on the "mysterious workings" of the company, but even that hope was subsequently dispelled.[127]

And there was this comment on management policy shown at the annual meeting of U. S. Cast Iron Pipe & Foundry Company: [128]

No financial statement was presented, not a word, a fact nor a figure, was given to the stockholders, and it was officially stated that at the meeting "some objection had been raised to the publication of an annual statement on the ground that this would give away advantageous information to competitors, of which the company has several and active ones."

This is a familiar old argument, but it is becoming threadbare and ridiculous.

Large combines generally issued annual reports, but often in terms so general that they revealed little about actual conditions. While printed annual reports to stockholders were the usual chan-

[125] *United States Investor* (Jan. 20, 1900), p. 74.

[126] *New York Financier* (Sept. 3, 1901), p. 1105.

[127] *The Iron Age* (Nov. 29, 1900), p. 16.

[128] "It Makes One Suspicious," *United States Investor* (June 30, 1900), p. 827.

nels of reporting, a president or chairman sometimes sent letters to stockholders, made announcements to the press, or delivered informal remarks at annual meetings which then were reported in financial and other publications. These various communications generally did not add up to much real information.

James B. Dill, who had had a hand in writing the New Jersey corporation laws that made the state so hospitable to holding companies, believed that while, in general, records should be open to all stockholders they should be withheld from those who bought shares only to have access to the books for reasons detrimental to the company.[129] His plea was for "a reasonable degree of publicity in and about corporate affairs, accounts, and finances." [130]

Henry O. Havemeyer, president of the American Sugar Refining Company, a merger of an earlier period, but one whose securities were still most actively traded in 1899, testified at hearings of the Industrial Commission: [131]

> There is always an aversion on the part of business men to expose their business to the advantage of competitors, and it is most probable that in case they did give the Government an opportunity to examine their books their condition and methods would leak out to the injury of themselves and the advantage of their competitors.

But he modified this somewhat in connection with a suggestion that government inspectors examine the books, as in banks: [132]

> I will state broadly that where a corporation is dealing particularly in things that are essential to the benefit of mankind — clothing, fuel, oil, sugar, rice, food — anything which is peculiarly . . . of a quasi public character, it would be beneficial to the public to have them all under governmental superintendence.

The views of Dos Passos were noted also: [133]

> As regards the general public, considered as investors and consumers, Mr. Dos Passos denies the justice or the necessity of such extreme publicity of the affairs of corporations as is frequently demanded. No man who is not interested in a corporation has the right to know anything about it. He is entitled to protection only in his contractual relations with the corporation. The State has no more right to interfere with a corporation for the benefit of outsiders than to interfere with a private individual. It is not possible for the Government to undertake to protect all investors or to furnish them brains.

The Westinghouse Company, whose policy at the time was in

[129] Industrial Commission, Vol. I, "Topical Digest of Evidence," p. 243.
[130] *The Iron Age* (Jan. 11, 1900), pp. 5–6.
[131] Industrial Commission, Vol. I, "Testimony," p. 136.
[132] *Ibid.*, p. 138.
[133] *Ibid.*, "Topical Digest of Evidence," p. 231.

contrast to that of General Electric, which reported quite fully, said in a report of the board at a special meeting on February 20, 1901:

> . . . and if some should be surprised that more complete statements have not been previously submitted to them, it can only be said that the Directors, as well as the stockholders who own the largest amounts of stock, have believed that in view of the existing keen competition and the general attitude toward industrial enterprises, the interests of all would be served by avoiding, to as great an extent as possible, giving undue publicity to the affairs of the Company.

Numerous business witnesses before the Industrial Commission favored publicity, often because it would remedy recognized abuses that had occurred because publicity had been inadequate. That the public had a right to detailed information, however, was not generally conceded by businesmen.[134] A minority report of the Industrial Commission called for publication of even more information than is commonly given out today, but the majority report made no specific recommendations on this point.

Examination of the policies of the ten corporations whose stocks were most actively traded on the New York Stock Exchange in 1900 suggests that there was little correlation between the issuance of informative reports and willingness on the part of investors to buy stock.

TEN MOST ACTIVELY TRADED "MISCELLANEOUS" STOCKS ON N. Y. S. E.
1900

About to enter U. S. Steel	*Others*
American Steel Hoop	American Sugar Refining
American Steel & Wire	American Tobacco
Federal Steel	Continental Tobacco
National Steel	People's Gas
	Tennessee Coal, Iron & R. R.
	U. S. Leather

These ten companies all were mergers, five formed as recently as 1898–1899. Seven had issued over $50 million in stock, and all but two had both common and preferred. The majority, thus, were big businesses, but their records in 1900 for giving information to their stockholders were poor. Only three issued an annual report with any considerable amount of text and financial information, and two of those were the smallest companies.

The most actively traded of these ten stocks, American Sugar,

[134] *Ibid.*, pp. 230–32.

and the company with the largest issued capital, U. S. Leather, put out very sketchy reports, the former giving only the minimum required by Massachusetts and not considered very informative. President Havemeyer, of American Sugar, took a dim view of reporting to stockholders and at the 1900 annual meeting some of his remarks, as reported in *The Commercial & Financial Chronicle*,[135] may have served to confuse rather than enlighten. He stated, for instance, that the directors' policy had been to lower sugar prices and he took a stockholders' vote that endorsed this policy, but the *Chronicle* in an adjoining statement pointed out that there had actually been an advance in prices.[136]

American Tobacco and Continental Tobacco, possibly because of a "community of interest," issued reports very similar in form and content. They, too, were sketchy and signed by the treasurer.

Four of the ten companies soon were to merge into U. S. Steel Corporation, which was to win wide approval for the frankness and completeness of its annual reports. The fact that a merger was under consideration in 1900 probably accounted for much of the large volume of share trading, and the obligation to inform the public more fully might seem to be clear. American Steel & Wire did issue a relatively detailed report, possibly because it was selling shares in England, and Federal Steel, a Morgan merger and one of the biggest up to that time, had issued a full one in 1899. When it had been reported that American Steel & Wire was to list its shares in London, the *United States Investor* commented: [137]

> With such a move in prospect there is reason to hope that the management will set a good example to other industrial concerns in this country by issuing at the coming meeting a report such as would be demanded by London brokers and bankers.
>
> * * *
>
> The drift of public and political sentiment is indication that the only settlement of the industrial situation will come with the issuance of satisfactory statements, either voluntarily or by compulsion. It is probable that before legislation makes such reports compulsory the best of the industrial companies will become convinced, as have the National Lead and American Cotton Oil Companies, that all good, clean, paying properties can best be managed with-

[135] (Jan. 13, 1900), p. 78.

[136] In its regular column "Commercial Epitome" (p. 87) the *Chronicle* said, "Refined sugar has been in fairly active demand and 10 points higher, closing with the independent refiners at 4.90c. net and the American Sugar Refining Co. at 5.05c., less a rebate of 15 points." The previous week's quotation for the trust had been 4.95c., less the 15 point rebate. *Commercial & Financial Chronicle* (Jan. 6, 1900), p. 41.

[137] (Jan. 27, 1900), p. 109.

out concealment, and will willingly if not proudly give the reports which sentiment is so evidently demanding.

But the London *Economist*, quoting a letter, said the company's annual statement made "pleasant reading" but ignored the threat of wage demands, price declines, possible overproduction, and so on. It also criticized the company's accounting and dividend policies.[138]

There were exceptions to the general practice of giving little information in annual reports. Aside from strictly financial information, some executives were making reports that included statements reflecting special problems or designed to consolidate good relations with labor, the public, or the government. A movement in the direction of better public reporting was clearly under way, affecting even those companies that did not regularly disclose their affairs.

Relations with Employees

One common reason businessmen found in 1900 to form associations was to strengthen their position as employers in dealing with unions and to inhibit the growth of unionization. Significantly, they generally called this kind of association a "defense" or "employers" association. One popular model for such associations, formed specifically to deal with labor, was the Stove Founders' National Defense Association, which had been formed in 1895 and was described in these terms: [139]

They are practically adopting the tactics of the workingmen, realizing that organization, with a reserve fund to back it, is essential if they wish to retain any considerable influence in the management of their business.

Employers commonly formed these associations along industry lines, for their interest was to obtain uniform conditions for themselves and their competitors. While trusts may have been formed partly for the purpose of presenting a strong front to labor, the heads of most combinations appear to have been no less and no more cordial to unionized employees than to others. The unions themselves saw a real or potential threat in these large aggregations of capital. Each side blamed the other for stepping up a race for power.[140]

The remarkable revolution in business methods and conditions of the past few years, showing itself in industrial combinations and the so-called community

[138] *The Economist* (March 31, 1900), p. 466.
[139] *The Iron Age* (Feb. 8, 1900), p. 21.
[140] Industrial Commission, Vol. XIX, p. 723.

of interests, has been accompanied by an almost equally remarkable consolidation of labor interests through the growth and strengthening of labor organizations and the increase in labor legislation.

Labor had no illusions about its status. Isaac A. Hourwich, Counsel to United Brotherhood of Cloak Makers, testified before the Industrial Commission: [141] "The trade or labor union is at best only tolerated by the law. What is known as 'public opinion' views it as a sort of a reservoir filled with inflammable chemicals, which are at any moment apt to explode." And employers generally concurred. There were some,[142] however, who recognized that the principle of organized labor had come to stay, but saw little good in the movement, and fought many of labor's particular demands. ". . . the practical questions are its [the union's] direction and control rather than any futile attempt at its repression." Demands of labor were described as "arbitrary and unreasonable," and it had become "the bounden duty of the employer to resist these demands at any cost," since yielding would only bring "newer and still more unendurable demands later on." Strike leaders were, generally, "mere adventurers seeking notoriety." Furthermore, labor was committed to ideas "so thoroughly wrong and so utterly indefensible" that it was inconceivable that these ideas could ultimately prevail. Some employers, however, were tolerant of unionism because they saw it as an alternative to Socialism,[143] which even then appeared to be a real threat to some businessmen.

One danger that employers saw in unionism was its effect on the freedom of the individual worker; it interfered with his right to work no matter how "disguised by the ingenuity of labor leaders." [144]

It is the question as to whether a man may be permitted to make his own terms with his employer or whether those terms shall be made solely and entirely through an organization. Further than that, the question with many is whether they shall be permitted to work at all, because they cannot gain membership in the organization which assumes to control the trade to which they rightfully belong.

One activity of unions that employers currently were finding particularly irksome was their effort to control plant operations in various ways, such as restricting output. But occasionally unions reluctantly were given credit for correcting bad plant practices of employers slow to improve their methods. They had, it was con-

[141] *Ibid.*, p. 152.
[142] *The Iron Age* (Aug. 9, 1900), p. 20.
[143] Industrial Commission, Vol. XIX, p. 805.
[144] "The Right to Work," *The Iron Age* (March 15, 1900), p. 19.

ceded, "accomplished good results in securing reforms in branches of trade in which great reforms were needed." [145]

Unions had been challenging a number of other established prerogatives of management in new phases of old issues, for instance, the right to fire and to install labor-saving devices. The right to fire an employee joining a union had been confirmed in a current court decision overturning a law restricting this right. This decision, it was said, showed that common sense as well as ethics governed relations of individuals and that if labor had the right to quit or strike, the employer had the right to fire for any reason; statutes restricting this right were "class legislation" and probably unconstitutional.[146]

In this age of new inventions and devices, employers were finding some diminution in attempts to prevent installation of labor-saving devices, but there was still considerable feeling that, "Ever since the era of machine industry began, many, perhaps most, workmen, organized and unorganized alike, have looked at every labor-saving improvement with dislike." [147]

A startling, new development was the talk at the Steel Workers' convention of demanding the check-off. "At first blush it would seem that some of the delegates have a keen sense of humor" in proposing that management should collect 1 per cent of wages and turn this over to the union, said *The Iron Age*.[148]

> As the accumulation of a fund of this character is for the purpose of providing the "sinews of war" in case of a strike, it might seem a trifle odd to ask a manufacturer to thus insure the building up of a strong fund to be used against himself, but perhaps he might not mind it after he became used to the practice.

The journal added that the suggestion may not have been entirely "playful," for boards of arbitration had been letting labor have its way and might in this instance.

While management and labor were organizing to show their respective strengths, some successful attempts were being made to find ways in which the two groups could work together. In about a dozen industries bargaining was under way between national organizations of employers and of employees. In a large number of cases, some local and some national, written agreements had been reached.[149] Some bargaining pertained to setting terms of

[145] *The Iron Age* (March 15, 1900), p. 19.
[146] *Ibid.* (Dec. 27, 1900), p. 21.
[147] Industrial Commission, Vol. XIX, p. 821.
[148] *The Iron Age* (May 24, 1900), p. 22.
[149] Industrial Commission, Vol. XIX, pp. 833 ff.

employment and some to settlement of disputes. Negotiations were beginning to be called "collective bargaining," a phrase not so familiar then to businessmen here as in England, and a practice slower to catch on here than there.

The attitude of employers to three alternative proposals for preventing strikes — arbitration, co-operation, and organization — is typified by comments in a contemporary trade journal.[150] Arbitration, it said, was not usually acceptable; co-operation was best but still was in the experimental stage and its general application was too remote to warrant any current consideration; organization of employers, typical of the times, was the answer. Banding together of manufacturers to combat unions had often proved "an effective check upon hasty and unnecessary strikes."

Defense associations were not all alike, however. The recently formed Illinois Coal Operators' Association, characterized as "a novel and important movement to avoid labor troubles,"[151] was said to be possibly the first voluntary organization in this country in large-scale industry to attempt to prevent friction and settle disputes by submitting differences to a commission, whose business it was to take up disputes with representatives of workers and settle them on the "merits solely." And other thoughtful businessmen were finding better ways to settle disputes than to permit strikes, which were seen as "wanton violations of every economic and social law, . . . probably . . . the worst stumbling blocks today in the right progress of labor organization; . . . reason and progress demand that some way shall be found whereby they can be prevented and yet with justice to both parties."

Nevertheless, labor disputes continued to arise and available mechanisms for settlement either were not used or were found inadequate; a rash of strikes and lockouts broke out. The strike epidemic that developed in 1900 affected mostly industries in which some producers were well stocked and even welcomed a shutdown, and some union members looked on a strike as a vacation.[152] Both sides came in for criticism, labor leaders for failing to see opportunities for peaceful settlement and employers for not being more patient and reasonable.

All parties concerning themselves in labor-management relations — employers, employees, and the public — were trying to influence

[150] *The Iron Age* (Aug. 9, 1900), p. 21.
[151] *Ibid.* (Aug. 16, 1900), p. 8.
[152] "The Strike Epidemic," *The Iron Age* (June 14, 1900), p. 26h.

labor legislation.[153] The AFL, the Knights of Labor, and the railroad unions all had effective lobbies that were causing concern to businessmen, who in turn also maintained well-established lobbies, either directly or through associations.[154] The public, aroused by labor disputes and strikes, was agitating for reforms that often appealed to neither management nor labor, and both labor and management were trying to win the sympathy of the public.

The real power of public opinion, however, and even the propriety of the public's interesting itself with labor matters was questioned. Newspapers commonly reported on public sympathy in strikes and implied that this was a powerful force in settlements. One journal commented: [155] "Readers . . . have had this dinned into their ears for so many years that probably the majority of them have become convinced that they are face to face with an industrial axiom." It was almost a heresy, the journal went on to state, to doubt that the public was infallible in economic and financial problems, but, in its opinion, public sympathy was frequently the "mainspring of downright wrong."

The investigation of the Industrial Commission and the immediate threat of labor legislation were important forces which faced businessmen in 1900. Employees, union officials, and others were testifying before the Commission and airing their grievances. Several major labor bills that were before Congress in 1900, however, all failed to pass. These included the Gardner bill for an eight-hour day on government contracts, a bill for compulsory arbitration, and a bill to exempt unions from the Sherman Anti-Trust Act.

As for various other aspects of working conditions and amenities that are taken for granted today, employers were just beginning in 1900 to recognize that they promoted good labor relations as well as efficiency. Progressive employers were installing better heating, lighting, and sanitary facilities. First-aid provisions were being introduced by managers of plants whose operations were dangerous and where accidents were numerous; accidents had become one of the most important problems of modern large-scale plants.[156] Most states had some regulatory laws, but no compensation requirements.

Another novel policy that a few individual businesses were adopting to promote better labor relations was establishment of employee stock purchase plans. A "more conservative" feeling was

[153] Industrial Commission, Vol. XIX, pp. 830 ff.
[154] *The Iron Age* (July 5, 1900), p. 17.
[155] *Ibid.* (Sept. 20, 1900), p. 17.
[156] Industrial Commission, Vol. XIX, p. 893.

expected to result. So far, however, the plans had not been particularly successful, for labor was suspicious. One satisfactory experience was reported by the United Fruit Company in its annual report: [157]

> Great credit is due the employes for their enthusiasm and close attention to the interests of the Company during the year. They are constantly adding their names to the stockholders' list as their means will allow, thus indicating their interest and belief in the Company.

That employees would buy enough stock to obtain control was thought unlikely.[158]

> In view of the enormous and increasing size of the units of industrial control, any expectation of an effective participation of wage-earners in the government of the great industries by any method based on their individual ownership of shares of the capital is chimerical.

Another unusual plan that attracted contemporary notice was the profit-sharing scheme of the Crane Company, seen as "of vast meaning to those who are seeking a solution of the differences between capital and labor." [159] The company in 1900 paid a 5 per cent dividend on employees' earnings. The previous year it had paid a bonus only to department heads and foremen. The president explained that the current payment placed the employee under no obligation to his employer and vice versa.

A typical view of social security programs, such as insurance and old-age assistance, however, was that they were the first step in "demoralization of the individual," for they were based on a belief that workers were improvident and needed someone to play God.[160]

Some corporate annual reports did give a generalized nod to labor, so common today, but rare then. Consolidation Coal Company gave a tribute to officers and employees for "constant fidelity," but also reported on a three months' strike. Mergenthaler Linotype said the good workmanship of its products was a tribute to the workers, and mentioned three by name. American Cotton Oil remarked, "The loyal and efficient co-operation of the officials and employes of the Company is recognized as having much to do with the satisfactory results for the year."

[157] *The Commercial & Financial Chronicle* (Nov. 17, 1900), p. 1021.
[158] Industrial Commission, Vol. XIX, p. 805.
[159] *The Iron Age* (Dec. 27, 1900), p. 16.
[160] *Ibid.* (June 28, 1900), p. 17.

A labor dispute in 1900 that was of particular interest to many employers involved national organizations of both employers and employees, the National Metal Trades Association, and the International Association of Machinists. The outcome was a pioneering achievement in setting up machinery for arbitration of disputes, described by Samuel Gompers as the "strongest document" that had been entered into for the amicable settlement of grievances.[161]

The National Metal Trades Association,[162] established in 1899, had been modeled after the Stove Founders' National Defense Association to deal with the already well-established machinists' union, the International Association of Machinists. Local firms belonged to "District" groups, which in turn belonged to the National. By March, 1900, its influence was "actually being felt," for it had defeated two strikes.

In January, 1900, it had been reported that the machinists were "working themselves up" to demand a reduction in working hours from 10 to 9, and an increase in their daily rate from $2.50 (some apparently received less) to $2.80. One business agent of the International Association of Machinists was quoted as saying he expected the request would be granted because it was just and because the union was strong enough to enforce its demands.[163] In March, strikes commenced in several places — reputedly to forestall lockouts — and threatened to reach formidable proportions.[164]

Conferences between representatives of the national organizations led to tentative agreements for a nine-hour day, a slight wage increase, arbitration machinery, and other matters. These agreements were ratified (after some difficulties and displays of force by both sides) at subsequent meetings between the national leaders. This action elicited approving editorial comment by *The Iron Age*, which singled out as important achievements the setting up of arbitration procedures which substituted co-operation for strikes and recognition of the union and of the principle of two groups having equal bargaining powers. It also made some surprisingly favorable comments on the labor leaders concerned. The Inter-

[161] *Ibid.* (Nov. 22, 1900), p. 30.

[162] "The National Metal Trades Association, Its Aims and Its Organization," *The Iron Age* (March 8, 1900), p. 9.

[163] *The Iron Age* (Jan. 11, 1900), p. 17.

[164] *Ibid.* (March 8, 1900), p. 17.

national, it said, was a "very strong and well managed trade union." It added: [165]

> The representatives of the manufacturers were broad minded men of affairs, who came to talk business and had neither time nor disposition for anything else. The representatives of the machinists were intelligent, discreet and reasonable, and quickly showed that they were as capable, as well informed and as courteous as the employers.

Later in the year, both groups were continuing to consolidate their strengths. Further amalgamation among unions in the machinery trades was being considered, and the N.M.T.A. was increasing its membership and strength. The peace was uneasy and did not last even through 1901, but the signed agreement was nevertheless a landmark for employers watching these developments.

Invention and Product Development

There was a "classic pleasantry" still current in 1900 that: ". . . the first business of a Yankee baby is to look his cradle over with a view to discovering a patentable improvement in its construction . . . ." [166]

Businessmen in 1900, as always, were alert to the possibilities of developing and exploiting new inventions and of expanding production of existing lines; trusts and big businesses had the capital to promote technological change as never before. But along with gains from patent ownership were patent infringement controversies and the liability of the exploiter to criticism as a potential or actual monopolist. The cost of patent litigation was a routine item in annual financial reports of General Electric, for instance.

The automobile, still in its infancy, was attracting considerable attention. The first Annual Automobile Show was held in Madison Square Garden in November under the auspices of "the same element which for years [had] been back of the Horse Show." [167] The ramifications of new product demands from this industry were extending into other related fields. "Owing to the nice business which has been given out lately by the various automobile manufacturers the machinery men are keeping in touch with this class and following up the numerous new companies which are springing into existence." [168]

Businessmen were experimenting with new and more efficient

[165] *Ibid.* (May 31, 1900), p. 21.
[166] *Ibid.* (March 22, 1900), p. 17.
[167] *Ibid.* (Sept. 27, 1900), p. 37.
[168] *Ibid.* (Jan. 11, 1900), p. 30.

methods of production and plant layout, and automation was in its early stages. In fact, technical advances in recent years had been so great that observers, taking stock at the time, were impressed but alarmed. [169]

> In fact, the changes and the progress since 1865 have been greater in many directions than during the whole history of the world before. It may be hoped that no such radical reconstruction of the industrial system, resulting in such serious and troublesome transfers of workers from old into novel surroundings, and causing so much disturbance and trial, will ever again occur.
>
> * * *
>
> The more generally machinery, and especially automatic machinery, can be made to reenforce producers and distributers of wealth, the higher is the efficiency of wealth production.
>
> * * *
>
> In fact, as is shown by the history of nations, no important accumulation of wealth in the hands of the people ever occurred until after the introduction of machinery, mainly during the nineteenth century.

Major examples of progress were the making of interchangeable parts, discoveries of new uses of by-products, and the enlarged role of experiment and scientific research, with designers and engineers tending to supersede inventors. Manufacturers were making increasing applications of electricity as motive power. "In the public distribution of electric energy a revolution is being effected. . . . The great superiority of alternating currents for motive power and all long distance work is becoming more apparent every day . . . ." [170] Illinois Steel's electrically driven plant received special attention.[171] This electrification had started in 1894, but 1900 saw further strides. Costs were reduced in three ways: the lower cost of the power itself, efficiency of the new machines, and reduction of labor cost. One man and one crane took the place of six men and two cranes.

Ingenuity of engineers in designing new systems of plant layout was attracting attention, for instance, in a machine tool company using assembly line techniques. "The system on which their shops are run is to start the raw materials at the north end of their main building and push them south as they progress, until they are ready for the truckman at the southern entrance." [172]

Uniformity in quality and packaging was another direction in which businessmen were making advances at this time, lowering

[169] Industrial Commission, Vol. XIX, pp. 537–38.
[170] *The Iron Age* (Jan. 4, 1900), p. 13.
[171] *Ibid.* (Sept. 20, 1900), p. 31.
[172] *Ibid.* (Jan. 25, 1900), p. 31.

costs and facilitating distribution. Large-scale operations, particularly, were setting examples in these lines.

Office practice, too, was being changed radically with improvements in typewriters; calculating machines were being tried in a few offices; and a "revolutionary" change in methods was permitted by adoption of the telephone. Although the ordinary typewriter was still being perfected, the electric machine also was being developed. The Cahill Electric Typewriter Company,[173] which was offering a small amount of preferred stock for sale in 1900, described its machine as reducing the operator's work to an "undreamed of" extent. The company had "acquired a monopoly of all the most valuable electrical typewriter patent rights."

Questions of the rate at which to produce their new, or old, products were important to managers in this year, for short-run and long-run influences indicated advantages of contradictory courses. While 1900 was a year of a minor recession, managers still had unfilled orders from the peak demands of 1899, and they could see good prospects for long-term growth. Some manufacturers were expanding by adding to present plants and others by building new ones which would permit more efficient layouts and utilize new methods.[174]

When managers decided on cutbacks, the merger form of organization proved to be a convenient tool to effect them. They could, and did, close the less efficient plants. Working through trade associations other producers were agreeing on cutbacks, but with less likelihood that such self-restraint would be effective.

As for establishing entirely new business enterprises, as well as adding to capacity, the promoters of new organizations saw special inducements as well as limitations at this time. High profits of 1899 in iron and steel were stimulating promoters to revive old plants that had not operated since the "long depression" of the 90's, and there were new schemes whose profits would depend on continuation of current profit rates.[175] Costs of these current expansions were higher than normal and would, it was believed, result in high product costs.

Location

Two types of problems related to location were the concern of businessmen in 1900: choosing the state in which to incorporate

[173] *The Commercial & Financial Chronicle* (Jan. 5, 1901), p. 45.
[174] *The Iron Age* (Feb. 8, 1900), p. 22.
[175] *Ibid.*

and the state and town in which to locate offices and plants. The first was especially important to those organizing mergers, because of state laws concerning corporations. "Incorporated in New Jersey" was the favorite phrase of the time, for New Jersey was especially hospitable to holding companies, which many mergers were. Some states, also, were hostile to "foreign" (out-of-state) corporations, and businessmen who sold in interstate commerce had to take this into account. The N.A.M. had special services for members harassed by hostile states.

These problems were fairly well defined at the time because, necessarily, the laws were codified and available to all. Interpretation was still being tested out, however, and new restrictive laws were being considered. Legal advice was essential to anyone establishing a corporation, particularly a big one. Often a lawyer was at the head of a new enterprise or merger or occupied an important executive position.

Managerial headquarters were not necessarily located in the state of incorporation or at the plant site. Many businessmen were being attracted to New York City because it was the financial center, and New York financiers were becoming prominent in the management and on the boards of big businesses. Corporate headquarters, as a technicality, usually had to be in the state of incorporation, but most management functions did not need to be carried on there.

There were a variety of special problems facing businessmen in relation to plant location at the time that have striking parallels today. Enterprising manufacturers were seeing the competitive advantages of location in the South, particularly in textiles, and had already taken away considerable business from New England mills, a matter of some concern to the N.A.M.[176] The South offered businessmen many inducements, including exemption from taxation for a period of years, greater freedom of employment of women and children in hours worked, cheap fuel and abundant water power, lower building costs, and, because plants often were new, the advantage of modern construction and equipment.[177]

> Southern mills, often operated by Northern capital, in several cases as auxiliaries of Massachusetts corporations, have earned dividends on their stock when the Northern mills have failed to do so. One result is that capitalists hesitate to invest in cotton manufacture in Massachusetts; another is that New England men have supplied the capital for many of the Southern mills.

[176] N.A.M. *Proceedings*, 1900, p. 173.
[177] Industrial Commission, Vol. XIX, p. 502.

Cities, furthermore, were drawing businessmen from small towns, particularly in retailing, thus presenting a serious problem to rural businessmen.[178]

> The problem of combating this tendency to concentration of business [in cities] is a very serious one to rural merchants and small manufacturers. To remove to more central points and compete for enlarged trade involves perhaps considerable sacrifices of property interests and the investment of much more capital. To continue as heretofore means to fight more vigorously for local trade and study methods by which old customers can be retained . . . never before has it been so necessary for the advantages or disadvantages of location to be carefully studied, if the projector of a commercial or manufacturing enterprise expects to do more than eke out a bare living in supplying the most pressing wants of the vicinage.

Individual towns, at the same time, were offering special inducements to attract businessmen, and real estate operators were organizing to invite manufacturers to locate new plants on their properties. For instance, Salem, Ohio, citizens offered to buy stock and furnish a free building site to the Ohio Steel Manufacturing Company, which had turned down an offer from Canton because the inducements were inadequate.[179]

There were, on the other hand, situations causing businessmen to move away from their established locations. Failure of city authorities to maintain order in cities having serious labor troubles was one cause.[180] In the case of mergers with scattered plants, management often closed some plants and transferred operations to the more efficient plants in other locations.

Technical developments that were already influencing business decisions with respect to both location and manufacturing methods included the spreading utilization of electricity, the telephone, and electric trolleys. Census reports of 1900 had revealed a slowdown in attraction of the population to cities from the country. "[The extension of trolley lines] has favored industrial development by making cheap land available for manufacturing plants, and has also favored the permanent withdrawal of labor from the population of the towns." [181] Management thus could take jobs to rural dwellers. The telephone, also, had come to be "beyond estimate" in importance in business transactions, permitting executives to have a wide separation of their manufacturing and distribution facilities.

[178] *The Iron Age* (Dec. 13, 1900), p. 30.
[179] *Ibid.* (Jan. 4, 1900) p. 48.
[180] *Ibid.* (Nov. 22, 1900), p. 28g.
[181] *Ibid.* (Nov. 15, 1900), pp. 21 and 22.

A minimum of government interference and a maximum of government aid were, unsurprisingly, what most businessmen wanted in 1900. They were working for these ends directly through well-established lobbies and indirectly in various ways. A current view of the proper role of government was this: [182]

The attempt of lawmakers to control the courses of business is a story as old as commerce itself, though it is only since the days of Adam Smith that it has been clearly perceived by impartial thinkers that the proper functions of the Government in this direction are in reality quite limited, and should be confined principally to the prevention and punishment of fraud, the protection and supervision of credit and the collection of revenue.

Any Governmental control or supervision, in addition to these, is a step directly toward socialism.

Congress was, however, concerning itself with many matters relating to business regulation, and chief among them in 1900 were antitrust bills. There were 18 bills in the House and Senate directly related to restricting or outlawing of trusts.[183] There were, besides, other measures that would indirectly influence such business organizations. The means provided for regulation included denying use of the mails, restricting interstate commerce, and denying tariff benefits. While these bills did not pass in 1900, they were a threatening cloud, darkened further by the investigations of the Industrial Commission.

In a number of other ways businessmen felt that their existing status was being threatened. There was a minor public movement, evoking some fears, favoring government ownership of business.[184] Businessmen also were afraid of tax increases, and the Industrial Commission [185] made the following recommendations on taxation, although no legislation resulted at this time: (1) that states abandon the general property tax and raise revenues by taxes on corporations, inheritances, and incomes and indirect taxation; and (2) that corporations be taxed by state boards on the value of their stocks and bonds, less real estate taxed locally.

Government monetary policy was another major concern of businessmen, and trade papers such as *The Iron Age* kept their readers well informed on current developments.

Federal and state laws, actual and proposed, concerning labor

[182] *Ibid.* (Jan. 11, 1900), p. 16.
[183] *Ibid.* (Feb. 22, 1900), pp. 2–3.
[184] Industrial Commission, Vol. XIII, p. xxxv.
[185] *Ibid.*, Vol. XIX, p. 1065ff.

affected business as well, and a number of federal bills were particularly prominent in 1900, as stated in the section on labor. Also, many state laws affecting unionization were being drafted.

There were some potential courses of government action that businessmen of 1900 heartily supported, such as the encouragement of foreign trade.[186]

> We have, therefore, reached the stage of development when we should vigorously improve every opportunity to widen our market, and when it would seem good policy for our government to render every aid to a complete development of the possibilities of foreign trade.

One current bill in Congress was for establishment of a Department of Commerce and Industries with a head of Cabinet rank. Such a bill had failed to pass the previous Congress, but the new bill was being pushed much more strongly and was considered likely to pass. It provided for bringing together under one head various bureaus in the Treasury, State, and Interior Departments whose functions were concerned with promotion of domestic and foreign commerce and industry, and it provided for addition of a Bureau of Manufacturers.[187]

> The general revival recently experienced by the leading industries of the country has done much to emphasize the importance of the reorganization of the present distribution of bureaus, and the proposition to solve the problem by the establishment of a new department is receiving very close attention from the leaders in both Houses.

Establishment of such a department would have followed the precedent of foreign nations, supporters said.

The N.A.M. actively supported the new bill, stating that the growth of domestic and foreign trade demanded it and that for a long time few measures had had such powerful support.[188] "There is hardly a business organization of consequence in the entire country that has not strongly voiced its desire for the creation of a Federal department of this character." The principal opposition it saw to the bill came from inertia rather than real objections. " . . . it should be borne in mind that the addition of this new department is a matter of such magnitude that its accomplishment must not be anticipated in a day or in a year." Many industrial witnesses before the Industrial Commission expressed their support for such a department.[189]

[186] N.A.M. *Proceedings*, 1900, p. 125.
[187] *The Iron Age* (Jan. 25, 1900), p. 9. This particular measure failed, but a bill for a Department of Commerce and Labor passed in 1903.
[188] N.A.M. *Proceedings*, 1900, pp. 14 and 15.
[189] Industrial Commission, Vol. XIX, p. 575.

There also was a bill for a new Department of Mines and Mining to foster these interests and carry on services such as those already furnished by the Agriculture Department in its experiment stations.

In addition to seeking new departments, businessmen were asking for extended or improved services from existing departments. The tremendous increase in exports and the opening up of new markets in United States dependencies, in Europe, and in the Far East were causing businessmen to focus attention on the consular service and to voice demands for extending its functions and obtaining more competent personnel. Until recently it had been the policy of leading countries to leave the promotion of foreign trade "to private enterprise, and to restrict the efforts of the Government to making trade as safe as possible. In this way only, it has been assumed, could the state be of the greatest service to commerce." But in the last five to ten years the United States and Germany had become great competitors of Great Britain, and foreign governments were aiding their manufacturers. The consular service, which had hitherto been looked upon as a semidiplomatic branch of the government, was more and more being regarded as a commercial intelligence bureau.[190]

> The business interests and commercial bodies of the country are alive to the importance of this question, and have urged upon Congress, through resolutions and otherwise, the reorganization of the consular service . . . in order that the expansion of the commerce of the country may be effectively promoted.

Members of the N.A.M. made the issue of improvements in the consular service one of the Association's principal concerns of the year, along with its general interest in foreign trade. *The Iron Age* also urged improvement: [191]

> Through our consular service, properly organized and constituted, the efforts of our manufacturers could be greatly assisted in ascertaining the conditions existing abroad and the necessary measures to develop and hold their export trade. That service should be made a far more valuable adjunct to our commercial system than it now is.

At the same time, businessmen were proposing that the Post Office Department increase its services and institute lower rates on parcels postage. There was a sharp division on this issue, however. Bills to lower the rates to an amount that would compete with express charges had been introduced before; the current proposal

[190] *Ibid.*, p. 574.
[191] "The Consular Service," *The Iron Age* (May 3, 1900), p. 25.

was to lower the rate a pound from 16 cents to 8 cents and increase the weight of admissable packages from 4 pounds to 11, in line with practice of foreign nations with which we had parcels post conventions. Proponents, including the N.A.M., saw decided advantages for manufacturers and exporters. They believed that the lower rate would give a great impetus to domestic trade by opening up new channels of distribution. John Wanamaker, Postmaster General in 1891, had then said, and the N.A.M. thought him worth quoting in 1900, that there were only four strong objections to rate reduction and these were the four great express companies.[192] The N.A.M. elaborated its case by observing that a more liberal rate, already applied to permit wider distribution of literature, should be extended to other items: [193]

> If we can afford to be liberal to literature we can at least afford to be just to commerce, which is the mainstay of the country after all. In the large cities we do not realize the importance of a parcels post so much as the people who are not able to get to the neighboring village or town to make their purchases. With the parcels post they could do most of their ordering by mail, and the country merchant or the merchant in the small city would have a great agency to aid him in delivering his wares.

But by 1900, a vigorous protest against lowering rates came from retailers in small towns, who foresaw that the change would be an advantage to the mail-order house and thus furnish that growing and ominous form of competition with a decisive weapon. Retailers were organizing to fight this competition in every way they could think of. The hardware industry was particularly hard hit; the Indiana Retail Hardware Dealers' Association, for instance, passed a motion that individual members write their congressmen urging opposition to the bill. The subject was typically on the agenda of meetings of trade associations at state and national levels. These various protests appeared to be effective, for the bill did not pass.

Tariff revision, always an issue, was currently important, but here again the diverse interests of businessmen resulted in conflicting opinions. The president of the N.A.M. reported at the annual meeting in 1900 that he had been embarrassed by the pressure of some members wanting ratification of current proposals and by others wanting rejection; so he could not present a united front for lobbying purposes.

That the tariff was "the mother of trusts" was another cliché of

[192] N.A.M. *Proceedings*, 1900, p. 54.
[193] *Ibid.*, p. 53.

the day, and the trusts were often on the defensive before the public even though working for continued protection. On this point, Senator Lindsay said that many industrial combines were directly benefited by tariffs and that whenever tariff legislation was pending corporate enterprise made its influence felt.[194]

> . . . as its representatives profess to speak for American labor, and are always unselfishly devoted to the protection of the American workingmen against the competition of the pauper labor of Europe and Asia, their arguments carry with them almost irresistible force.

Still another bill relating to foreign trade was the current ship subsidy bill in Congress. The bill was seen by some businessmen as supporting our national prestige and by others as just another undeserved government aid to big business.[195] A special United States commission appointed at this time to report on revision of patent and trade-mark laws and recommend legislation apparently failed to attract widespread attention in the business community.

Another movement of interest to enough businessmen to reach the stage of a bill in Congress was an effort to establish the metric system as the legal standard for weights and measures; there had been previous unsuccessful bills. Proponents argued that this measure would be especially helpful to firms doing business abroad, where (except for Great Britain) the metric system was established. Furthermore, the system was convenient and economical for general use; it was estimated that millions of man-years would be saved by using it. Large manufacturers and engineering associations favored the bill, and it had vigorous backing in the House.[196]

Most of the bills thus far mentioned failed to pass in Congress, although businessmen actively supported them directly and through their organizations. *The Commercial & Financial Chronicle*,[197] after the close of the 56th Congress, commented, as many observers have since, on the good that would come from the failure of Congress to pass certain laws. It deplored defeat of the bill to reform the consular service and some others, but thought this loss offset by gains from the failure to pass "ill-judged or half-considered measures." Some of these were "grave departures from our traditional policy; others were merely the product of restless inventive-

[194] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 100.

[195] The law did not pass but was to come up again in 1901–02, in much more controversial circumstances when the International Mercantile Marine Company was being formed.

[196] *The Iron Age* (Jan. 18, 1900), p. 12.

[197] "The Fifty-Sixth Congress" (June 9, 1900), p. 1121.

ness or the spirit of agitation." Included among those whose rejection it considered a positive gain were the ship subsidy bill, the antitrust bill, and the bill for establishing a department of commerce. The people were best satisfied, it said, when Congress did least.

These various efforts by business to influence legislation appeared to be pronounced in 1900, and provoked much comment. The N.A.M., which had just appointed a permanent Washington representative,[198] reported that, " . . . the work of the Association [N.A.M.] during the past year has been directed more towards legislative work in Washington than at any time."[199] *The Commercial & Financial Chronicle* observed,[200] " . . . we are very certain that if the very existence of a dozen powerful corporations were menaced by action of a single Congress, an era of almost unprecedented lobbying and jobbery would be at hand."

In his talk on "The Influence of Corporations on Political Life," Senator Lindsay pointed out another aspect of attempts by businessmen to influence public officials:[201]

> These citizens complain, too, that corporations, not content with the extraordinary and dangerous control they exercise in affairs of business, have become customary participants in political contests, and insist that the results of elections, especially municipal elections, are often brought about by the active intervention of corporate managers, and the illegitimate use of moneys supplied from corporate funds.

Lindsay believed that this intervention was a recent development but an important one, that the fault lay largely with the politicians, that businessmen were just protecting themselves, and that "nine-tenths of the corporations now engaged in shaping public opinion would welcome the opportunity to abandon that policy."[202]

Conclusion

It is to be expected that any such attempt as this to discover the subjects of greatest interest to the businessman of 1900 would serve in important instances to confirm the judgments and ratify the analyses of preceding historians. But there are some surprises, too, and evidence that those who would understand business evolution should take a second look at certain long-accepted conclusions.

[198] *American Trade* (Jan. 15, 1900), p. 63.
[199] N.A.M. *Proceedings*, 1900, p. 7.
[200] (May 26, 1900), p. 1019.
[201] *Supplement to the Annals of the American Academy of Political and Social Science* (May, 1900), p. 79.
[202] *Ibid.*, p. 95.

What appear to be outright gaps in historical knowledge are also revealed — areas that invite detailed research and promise the reward of a more sharply delineated picture of American business development. Finally, there are the inevitable similarities and contrasts between that day and this. Most of these are too obvious to require statement, but some merit notice and a few are of considerable interest.

Clearly, the greatest preoccupation of 1900 revealed by the sources used in this study was with the question of business organization generally and the merger or "trust" in particular. This observation substantiates the findings of business and economic historians, who have quite correctly emphasized the importance of the turn-of-the-century merger movement. But a look at what businessmen of the day were saying also reveals aspects of the subject that appear to have received less historical notice than they deserve.

It appears that many businessmen of the day felt that mergers and trusts were unhealthy. This opposition within business itself to the trust movement may well have been as significant as the more highly publicized attacks of muckrakers and politicians. At the same time, however, the fact should not escape notice that a number of businessmen who were not themselves affiliated with great industrial combinations were reporting the existence of active competition in industries reputedly dominated by trusts. This evidence may be interpreted in two ways — either that these contemporary "independents" were whistling in the dark, or that until very recently historians, misled perhaps by the antitrust hue and cry of the day, have occasionally overestimated the competitive potency of industrial combinations.

The commercial literature of 1900 also reveals the fact that when businessmen sought to solve their competitive problems through merger they generated a whole new set of problems in the field of business organization. At the turn of the century American business was rapidly outgrowing its administrative breeches. Manifestations of this fact included the cry of the day for "better management" and the expressed fears of a breakdown of administrative controls in the large combinations. Here is encountered one of the more interesting parallels between 1900 and 1956. No enduring solution to the problem of effective control can apparently be reached, and each business generation seeks a fresh answer. In 1900, as in 1956, the problem of developing central controls was a major preoccupation of the American businessman.

Examination of 1900 preoccupations reveals two other areas that also may well have received less historical attention than they deserve. The first of these is the marketing revolution that attracted so much contemporary comment. Business historians have treated this in too narrow a context; economic historians have dealt with it in generalities, revolving around the spread-of-the-railroad-network. Taking our clue from the observations of the contemporary businessman himself, we apparently need to know much more about the department store, the mail-order house, the wholesaler; about advertising, warehousing, packaging, catalogues, direct selling, sales administration; and about how these institutions and functions evolved. In short, we need to fit marketing into our as yet unformulated theory of business development.

The extent to which the businessman of 1900 appears to have been interested in trade associations may come as a surprise to some of us, though it should not. This movement, like the merger movement, was a manifestation of the organizational crisis of the day, and it is significant that in some instances associations were the precursors to outright mergers. Control of competition and control of labor were the chief goals sought in association. The movement, however, had an even deeper significance. It showed that the businessman was becoming industry-oriented, a vital stage in the progression toward an awareness of the needs of the whole economy that we observe in many quarters today. Serving broader markets than ever before, the executive of 1900 sought in association not only an element of control over adverse forces but also a medium for exchange of information about prices, competition, regulation, tariffs, demand, supply, and technology. The multiplication of trade journals bore testimony to the strength of the associationist movement and helped nurture it. As yet, however, we have only a hazy notion about what these associations accomplished.

One of the most important returns from any examination of 1900 business literature is the revelation of a difference of contemporary opinion over capital financing. This controversy, in conjunction with an actual change in the nature of certain financial mechanisms over the years, has given rise to historical misinterpretation. Many influential businessmen of the day clearly felt that industrial common stocks, still relatively new in financial markets, derived their value not from physical assets *and* earning power but from earning power alone. Thus, they considered it ethical to issue stock that had far less real equity value than showed on the books provided earnings expectations made it probable that dividends could

be paid on the stock. In such instances, they argued in apparent good faith, no "water" was present. Reconciliation with accounting formalities was accomplished through the medium of the goodwill account on the asset side of the balance sheet. Financial writers often took issue with this concept, and when earnings expectations were not realized contemporary comment became highly critical. But at the same time, it should be noted that in many cases dividends not only were paid, but in time the "inflated" capital issues acquired substantial and real book as well as market value. Historians have been quite justified in rendering adverse judgments about certain financial procedures common at the turn of the century. On the other hand, some misinterpretation has been prevalent because historians have generally failed to recognize that many businessmen of the day held an entirely different concept from that of the historian as to what common stock really was. As businessmen themselves became progressively more and more reluctant to capitalize goodwill, this misinterpretation became all the more easy.

Turning, finally, to the more interesting similarities between the expressed sentiments of businessmen in 1900 and in 1956, we find striking resemblance in the concern over "mechanization" in 1900 and "automation" in 1956. The difference is in degree rather than kind, and the concomitant management issues are not dissimilar in the two periods. Ironically enough, in each of these periods of dramatic innovations in products and processes there have been prophecies of the doom of spontaneous invention. The 1900 headline, "The Passing of the All 'Round Inventor," has its parallel in "The Decline of Invention" in 1956.[203] In 1956, as in 1900, the alleged replacement of the independent inventor by subsidized research is both welcomed and denounced.

To some observers one of the most disturbing similarities between 1900 and 1956 lies in the marked prevalence, in both eras, of writers devoting their energy to apologizing for and defending the businessman. A comparison of the two eras suggests that over the course of half a century the businessman has in most cases done a poor job of selling himself to the public. This surmise, widely entertained by historians and by many businessmen as well, forms the basis for many present-day business policies and practices that were alien to the commercial world of 1900. Historical evidence fails to suggest that the businessman of 1956 is endowed with a wisdom surpassing that of his father before him, but at least he is becoming conscious of some of his father's shortcomings.

[203] *The Wall Street Journal*, April 10, 1956.

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Public Accounting in the United States from 1928 to 1951

Public accounting practice and the nature of the accounting profession itself has, in the years under consideration, been shaped by a series of external forces. The Great Depression stimulated codification and regulation of practice. Further refinements of auditing procedures were introduced in the wake of the McKesson & Robbins case. The basic question of who was authorized to practice received almost continuous attention, and was the subject of much legislation and some important legal action. World War II introduced new practices, added responsibilities, and certain difficulties. And finally, the emergence of a strong national organization provided the profession with a means for achieving internal consistency and the capacity for co-ordinated reaction to rapid external change.

In the years from 1928 to 1951, the public accounting profession attained many of the goals it had been seeking for several decades. The primary cause for these achievements was that businessmen had at last come to appreciate the value of the certified public accountant and begun to call on him regularly. The utility of the professional accountant derived not only from his auditing and tax services but also from his increasingly wide experience and knowledge as a business consultant.

The 1928 to 1951 period also marks the advent of major governmental influence upon the evolution of accounting principles. This came about partly as a result of legislative action and partly through a series of important court decisions handed down in the 1930's.

In many of the changes that have taken place, factors external to the profession have been influential. Accounting evolution has essentially been the response of the accounting profession to economic, business, and governmental influence. In important instances the nature of that response is clear, but in some respects the 1928-1951 period is still too recent for final evaluations, and the historian can record only that part of change which is presently visible.

Before 1929 several efforts had been directed at standardizing and upgrading accounting procedures. From a very early date, in fact, the organized accounting profession had aggressively championed sound accounting principles and clear disclosure of material facts. This attitude was reflected in the co-operation given the Federal Trade Commission in preparing its 1918 pamphlet entitled *Approved Methods for the Preparation of Balance Sheet Statements.* This booklet was revised under the auspices of the Federal Reserve Board in 1929 and issued under the title *Verification of Financial Statements.* Behind this action lay the hope that a set of instructions serving as a guide to accountants, bankers, credit men, and the business public would encourage the adoption of proper auditing precautions. Such a prescription was not intended to be complete or restrictive, but it purported to show the standard below which the accountants could not go and still certify the validity of the accounts.[1]

Meanwhile, the Committee on Business Conduct of the New York Stock Exchange had in 1921 and 1922 evolved a plan requiring periodic statements of the financial condition of each stock broker or stock brokerage house. The request for a statement, which was usually in the nature of a surprise, was in the form of a questionnaire and could be made at any time by the Committee. The questionnaire called for an audit of the books coincident with the completion of the questionnaire, the audit to be made in conformity with the regulations prescribed by the Committee on Business Conduct. It was also stipulated that the firm's name must not appear on the questionnaire; instead, by using a system of key numbers, the confidential nature of the answer was maintained. The answer to the questionnaire was to be accompanied by a certificate signed by each member of the firm and by those who conducted the audit — whether it was the internal auditors of the company or a certified public accountant — stating that the answers were correct in every detail.[2]

The questionnaire requested of these brokerage firms in the early twenties was the forerunner of a request for similar statements from listed companies. Perhaps the Committee felt that only after the

[1] Victor H. Stempf, "The Securities and Exchange Commission and the Accountant," *The New York Certified Public Accountant,* VIII (April, 1938), 12.

[2] Harlan Johnson, "New York Stock Exchange Questionnaire," *The Journal of Accountancy,* XLVIII (July, 1929), 19.

brokerage houses had put their own records in order could the companies that had their stocks listed on the Exchange be expected to co-operate.

Such companies were first required to file statements in the early 1920's. In contrast to the formally audited statements later required, companies initially were asked to supply only their regular annual statements, which could be prepared by company accountants. Members of the accounting profession warned the leaders of the Exchange against this system of filing uncertified statements. The only action in response to these protests, however, was that the Exchange asked that quarterly financial statements be filed.[3]

The tremendous losses suffered from the fall in stock prices in 1929 focused attention on several circumstances. It became clear that businessmen, bankers, and accountants had not given proper emphasis to the auditing standards set forth in the bulletins of the American Institute of Accountants or the instruction books of the Federal Reserve Board. Defalcations were exposed which emphasized the importance of auditing even in those companies that were too small to justify the maintenance of an adequate system of internal check. Other depression incidents demonstrated the importance of external audits for companies with elaborate accounting systems. Certain companies which in their magnitude and importance had considered themselves to be above the need of auditing by outside accountants now began to consult them. Businessmen began to rely more and more on the accountancy profession, both voluntarily and because of legal requirements placed on business during the 1930's. The force of the depression and the complexities of business united to stimulate the growth of small as well as large accounting firms.[4]

The realization that proper accounting methods and independent audits might have prevented some of the financial losses of the day led to conferences between the New York Stock Exchange and the American Institute of Accountants. These talks continued in 1932 and 1933 and produced two important results. First came the announcement by the Exchange on January 6, 1933, that it would require all companies requesting permission to list their stock on the Exchange to have an audit certificate of an independent certified public accountant.[5] Then, on October 24, 1933, came the adoption

[3] "Financial Statements for Stock Exchange," *The Journal of Accountancy*, XLII (July, 1926), 37.

[4] George O. May, "Influence of the Depression on the Practice of Accountancy," *The Journal of Accountancy*, LIV (Nov., 1932), 336.

[5] The actual announcement may be found in "Stock Exchange Demands

by the Exchange of proposals regarding accounting methods which had been made by an Institute committee.[6] Accountants were gratified by these announcements.

The second phase of the new audit program was set forth in a letter from Richard Whitney, president of the Exchange. Highly important conversations between the Committee on Stock List and various accountants had preceded its writing. The letter was sent to every corporation whose securities were listed, and read as follows: [7]

The New York Stock Exchange has recently announced its intention of requiring audited statements in connection with the listing applications made after July 1, 1933. The public response to this announcement indicates clearly that independent audits are regarded by investors as a useful safeguard.

If, however, such a safeguard is to be really valuable and not illusory, it is essential that audits should be adequate in scope and that the responsibility assumed by the auditor should be defined. The exchange is desirous of securing from companies whose securities are listed, and which now employ independent auditors, information which will enable it to judge to what extent these essentials are assured by such audits. In furtherance of this end, we should be greatly obliged if you will secure from your auditors, upon the completion of the audit for the year 1932, and furnish to the committee on stock list, for its use and not for publication, a letter which will contain information on the following points:

1. Whether the scope of the audit conducted by them is as extensive as that contemplated in the Federal Reserve Bulletin, *Verification of Financial Statements*.

2. Whether all subsidiary companies controlled by your company have been audited by them. If not, it is desired that the letter should indicate the relative importance of subsidiaries not audited, as measured by the amount of assets and earnings of such companies in comparison with the total consolidated assets and earnings, and should also indicate on what evidence the auditors have relied in respect of such subsidiaries.

3. Whether all the information essential to an efficient audit has been furnished to them.

4. Whether in their opinion the form of the balance-sheet and of the income, or profit and loss, account is such as fairly to present the financial position and the results of operations.

5. Whether the accounts are in their opinion fairly determined on the basis of consistent application of the system of accountings regularly employed by the company.

Audits of Listed Companies," *The Journal of Accountancy*, LV (Feb., 1933), 82.

[6] George O. May, "The Economic and Political Influences in the Development of the Accounting Profession," in *Fifty Years of Service, 1898–1948* (New Jersey: New Jersey Society of Certified Public Accountants, 1948), p. 11.

[7] Editorial, "Accountants and the New York Stock Exchange," *The Journal of Accountancy*, LV (April, 1933), 242.

6. Whether such system in their opinion conforms to accepted accounting practices, and particularly whether it is in any respect inconsistent with any of the principles set forth in the statement attached hereto.

I shall personally appreciate very much your prompt consideration of this matter and any cooperation which you may extend to the exchange in regard thereto.

The New York Stock Exchange rulings were very possibly among the most important forward steps in the field of auditing within recent years. No one who has been interested in the public accounting profession can fail to recognize their significance, or the added burden of responsibilities which they placed on the entire profession — especially on those practitioners engaged by companies listed on the Exchange. Upon their success in living up to the new responsibilities that were placed upon them depended in great measure the future of the profession.[8]

These advances in the field of auditing had a stimulating effect not only on those firms that performed audits for companies listed on the Exchange, but also throughout the whole public accounting profession. This was the first time that stockholders' annual reports of companies with stock listed on the New York Stock Exchange had to be certified by public accountants. Recognition thus given the certified public accountant by the New York Stock Exchange enhanced the prestige of the profession on a national level.

Following the action taken by the New York Exchange, the second largest exchange adopted a similar measure. On March 21, 1933, the Chicago Stock Exchange adopted regulations from which the following excerpt is taken:[9]

Clear and informative financial statements, including a balance-sheet, profit and loss statement and an analysis of surplus, shall be submitted as part of each application. Such financial statements shall truly disclose the past operations and present conditions of the company and shall be certified to the Chicago Stock Exchange by duly qualified independent public accountants, whose certificate shall be set forth in full as a part of the application.

Aftermath of McKesson & Robbins

The next major influence upon accounting practice in the United States derived from the defalcations that in 1938 involved McKesson & Robbins, Incorporated. On January 5, 1939, the Securities and Exchange Commission began public hearings in New York City

[8] Editorial, "Great Responsibility and Great Opportunity," *The Journal of Accountancy*, LV (Feb., 1933), 83.

[9] Editorial, "Chicago Stock Exchange Requires Certified Statement," *The Journal of Accountancy*, LV (May, 1933), 321.

before Adrian C. Humphreys, Examiner, for the purpose of determining the scope, character, and detail of the audit in the preparation of the McKesson & Robbins financial statements and the extent to which generally accepted auditing procedures had been adhered to in the performance of the audit by Price, Waterhouse and Company.

By February 20, 1939, the first stage of the investigation, that of hearing witnesses of McKesson & Robbins and the accounting firm, had been completed. At that time the Commission began the examination of expert witnesses for the purpose of defining generally accepted auditing procedures by means of a sampling of the opinions of a cross section of the public accounting profession.

The following twelve representatives of the public accounting profession were examined by William W. Werntz, chief accountant of the Commission:

Samuel J. Broad, New York
C. Oliver Wellington, New York
Victor H. Stempf, New York
William H. Bell, New York
Norman J. Lenhart, New York
John K. Metheison, Philadelphia
Henery A. Horner, New York
Charles B. Couchman, New York
Hiram T. Scovill, Urbana, Illinois
Joseph J. Klein, New York
George D. Bailey, Detroit
Charles W. Jones, Chicago

Most of the questions asked these men were related to the bulletin reissued by the American Institute of Accountants in 1936 entitled "Examination of Financial Statements by Independent Public Accountants." It was the agreement of the witnesses that the purpose of the statement mentioned above was to state, for the benefit of both the profession and the public, what was considered to be generally accepted practice, rather than to introduce new procedures or to make improvements upon old procedures.

It was agreed by these witnesses that the procedures followed by Price, Waterhouse were those that were generally accepted at that time. That is, it was not customary for the auditors to confirm receivables directly, nor was it necessary for them to check the physical existence of inventories. The Kingston Cotton Mills Case was the only court decision at the time in which inventories had been considered, and this did not require physical test of inventories by public accountants.

In answer to one of the questions regarding the discovery of fraud, Mr. Bell answered as follows: [10]

> An examination made in accordance with the bulletin ought, in my opinion, to disclose any fraud of relatively large amount except perhaps where there has been widespread collusion or forgery of records.

The Commission concluded that the audits performed by Price, Waterhouse and Company substantially conformed, as to the scope and procedure employed, to what was generally considered mandatory during the period under consideration. The accountants' failure to discover the gross overstatement of assets and of earnings was attributed by the Commission to the manner in which audit work was done. In carrying out the work, the auditor had failed to employ that degree of vigilance, inquisitiveness, and analysis of the available evidence necessary in a professional undertaking and recommended in all well-known and authoritative works on auditing. In addition, the Commission held that the overstatement should have been disclosed had the auditors corroborated company records by actual observation of inventories and independent confirmation of receivables — audit steps which, although considered better practice and used by many accountants, were not considered mandatory by the profession prior to the hearing.[11]

On November 15, 1940, the firm of Price, Waterhouse and Company sent the following letter to William Wardall, Trustee of the Estate of McKesson & Robbins, Inc.: [12]

> You have informed us of certain losses sustained by McKesson & Robbins, Inc., Debtor, and its predecessor and subsidiary companies, in connection with the fraud and dishonesty of the former President of the Debtor, his three brothers, and certain other persons, who were engaged in a conspiracy to defraud the companies concerned. You have also publicly asserted that certain of the officers and directors of McKesson & Robbins, Inc., may have been negligent in the performance of their duties in failing to discover the existence of the fraud and hence legally responsible for losses thereby occasioned.
>
> You have discussed with us your claim that we, as independent public accountants, may also be responsible for such losses, by reason of the fact that our examinations of the books and records of the McKesson & Robbins Companies did not disclose such fraud, dishonesty and negligence.
>
> As we have already advised you, it is our firm conviction, formed after a review of all the facts, even in the light of hindsight, both by the Securities and Exchange Commission and by members of our firm acting independently, that

[10] "Testimony of Expert Witnesses at Securities and Exchange Commission Hearings," *The New York Certified Public Accountant,* IX (April, 1939), 318.

[11] C. W. DeMond, *Price, Waterhouse and Company in America* (New York, 1951), p. 274.

[12] *Ibid.,* p. 273.

our work during the entire period of our relationship with the McKesson & Robbins Companies was conducted carefully and in accordance with generally accepted accounting practice and procedure.

Although subsequent disclosures suggest the possibility that certain additional procedures might have resulted in discovery of fraud, such procedures were neither required nor customary under generally accepted accounting practice and could not have been undertaken except upon the express instructions of those officers of the McKesson & Robbins Companies who engaged our services. Those officers did not so instruct us, although they were advised by us in writing that our examinations were not sufficiently extensive to reveal either possible misappropriations of funds or manipulations of the accounts.

It is our position that in the conduct of the limited character of examination for which we were employed, and which was described by our certificates and by our reports, we were not guilty of any negligent act or omission or otherwise at fault, but that we were victims of the same fraud of which the McKesson & Robbins companies were victims. Furthermore, we believe that this position would be sustained in any litigation by which you might seek to impose liability upon us in connection with the losses in question.

As a result of the fraud practiced upon us by the former President of McKesson & Robbins Inc., and others, we have from time to time expressed opinions to the effect that various financial statements of the McKesson & Robbins companies fairly presented their position and the result of their operations. These opinions have, with the discovery of the fraud, proved to be mistaken. Notwithstanding the fact that the opinions were given in good faith, after the performance of the work for which we were employed with due care and in accordance with the highest professional standards, we are willing, and hereby offer, to refund to you the sum of $522,402.29, the total amount received by us from McKesson & Robbins companies in respect of all such opinions subsequent to January 1, 1933.

The Trustee recommended that the offer made by Price, Waterhouse and Company was fair and that it was in the best interest of McKesson & Robbins to accept the offer. Thereupon the court instructed the Trustee to accept the firm's proposal.

The following words of caution were given the profession in the United States in *The Accountant,* the official public accounting publication in England: [13]

A case so extremely exceptional as McKesson & Robbins, though rightly the occasion of heart-searching, cannot properly be used as the basis of general action. Hard cases make bad law, and in the sphere of accounting and auditing it would, in our judgment, be the very extremity of folly to prescribe panic measures because a single corporation, conceived, conducted and supported in the vilest form of collusive fraud, has succeeded for a time in eluding the ordinary vigilance of an auditor. McKesson & Robbins was not one case in a hundred, or even one case in a million; it was the grand exception unlikely ever to be repeated and unworthy of being the occasion for the laying of burdens and expense on a community in which, after all, honesty is the prevailing rule.

[13] "Independent Audits in America," *The Accountant,* CII (April, 1940), 370.

The significant outgrowth of the McKesson & Robbins case was not the fact that the Securities and Exchange Commission took action in revising the minimum auditing procedures. Even before the case was ruled on by the Commission, the public accounting profession, through its national organization, took steps to re-examine the then generally accepted auditing standards and procedures.

The American Institute of Accountants announced publicly that it intended to review customary auditing procedures because of the events brought to light by the Securities and Exchange Commission investigations of this case and then to recommend what, if any, changes in procedures should be adopted by the profession. The American Institute and the New York State Society of Certified Public Accountants arranged for informal conferences with representatives of the Securities and Exchange Commission to discuss, in a general way, the character and scope of generally accepted auditing procedures and the possibility of improvement.[14]

The starting point for the discussion of the Committee on the Extension of Auditing Procedure was a pamphlet published in January, 1936, by the American Institute of Accountants entitled "Examination of Financial Statements," which was nothing more than a restatement of the 1929 pamphlet. Neither pamphlet required circularization of receivables or observation or testing of physical quantities of inventories.[15] A committee was appointed by the president of the Institute to study this document and make recommendations for changes.

The report of the Committee on Auditing Procedures on May 9, 1939, made recommendations having to do with examination of inventories; examination of receivables; appointment of independent certified public accountants; and the form of independent certified public accountants' reports.[16] The major point made by the Committee on Inventories was that the corroboration of inventory quantities either by observing the taking of inventories or by physical test should be accepted as a normal audit procedure. With regard to receivables, the Committee recommended that all receivables should be verified by direct communication with the debtor, either by negative or positive methods. The Committee further recommended that the auditor should be selected by the directors and voted on by

[14] "The American Institute and Audit Procedure," *The Accountant*, C (Feb., 1939), 263.

[15] Stempf, "The Securities and Exchange Commission and the Accountant," *The New York Certified Public Accountant*, VIII (April, 1938), 12.

[16] "Extension of Auditing Procedure," *The Accountant*, C (June, 1939), 850.

the stockholders. Lastly, it was advocated that the scope and opinion sections should be distinct on the auditor's report.[17]

The report of the Committee on Auditing Procedures was issued as a pamphlet, the first of several, entitled, *Extension of Auditing Procedure*. Upon issuance these reports became, in effect, a part of generally accepted standards of auditing procedure, since they bore the stamp of approval of the American Institute of Accountants.[18]

It was through these revised standards and extension of procedures that the McKesson & Robbins case affected the profession and brought the national accounting organization into national prominence. Members of the profession began to look toward their organization as the medium through which accountants could operate cooperatively to raise the standards of the profession and enhance the prestige of accountancy.

The refund of accounting fees to the clients of the public accountant in this case indicated to the profession that their liability could be tremendous if they were found guilty by the Securities and Exchange Commission. Hence, the public accountant could be expected in the future to show less resistance in carrying out examinations of wide scope, and businessmen would be more reluctant to place limitations on the audit than in the past.

Reporting Problems in World War II

The effect of World War II on the accounting profession can best be shown by reference to the Accounting Research Bulletins. The first of seven bulletins issued as a result of the war was No. 13, issued in January, 1942. It pertained to accounting for special reserves arising out of the war and the methods of handling possible costs or losses resulting from the war.[19]

A major problem for the accounting profession arose as a result of the War Profits Control Act.[20] Under this act, contractors and sub-contractors had to maintain adequate records so that profits could be determined with reasonable certainty prior to completion of contracts. The government had the right to renegotiate any contract and recover such portion of the price deemed to represent excess profits.

[17] *Ibid.*

[18] Norman J. Lenhart, "Development in Auditing Procedures since the Extension of Such Procedures in 1939," *The New York Certified Public Accountant*, XVII (Sept., 1947), 565.

[19] *Accounting Research Bulletin No. 13* (Jan., 1942), pp. 111–18.

[20] *Accounting Research Bulletin No. 15* (Sept., 1942), pp. 123–34.

In December, 1942, a bulletin was issued entitled "Post-War Refund of Excess Profits Tax." The Treasury Department had to make a credit in each taxpayer's account for 10 per cent of the excess profits paid which would provide a fund that would be available for the conversion to peacetime production.[21]

Bulletin No. 19 was issued in 1942 and dealt with the problem of "Accounting under Cost-Plus-Fixed-Fee Contracts." The procurement of war materials had greatly extended the use of this type of contract. Under these contracts the contractor was periodically reimbursed for his expenditures plus a fixed fee. This procedure resulted in many accounting problems, one of which was when to recognize profits. The Committee recognized the special nature of such contracts and approved the recognition of profits upon partial fulfillment of the contract.[22]

In 1943 a supplement to Bulletin 15 was issued. It was entitled "Renegotiation of War Contracts" and dealt further with the problems of financial reporting when long periods of time elapsed between cancellation or completion of a contract and final settlement.[23]

In April, 1945, the sixth bulletin dealing directly with war problems was issued under the title, "Accounting for Terminated War Contracts." This bulletin was concerned with the problem of fixed-price contracts that were terminated at the convenience of the government, specifying that profits accruing or claims of the company against the government as a result of cancellation of these contracts should be given full disclosure.[24]

The October, 1946, Bulletin, No. 26, was entitled "Accounting for the Use of Special War Reserves." This bulletin was concerned with the handling of losses or costs resulting from the facilities acquired by the companies for war purposes.[25]

The American Institute of Accountants Committee on Auditing Procedures issued several bulletins on war problems of the auditor. The first bulletin dated June, 1942, was a joint report of the Committee and the New York State Society. It was the considered opinion of the bulletin that the auditor's work should be spread throughout the year. Also, more emphasis than in the past was placed on the adequacy of systems of internal control.

The major problem, as a result of World War II, was confirma-

[21] *Accounting Research Bulletin No. 17* (Dec., 1942), pp. 147–50.
[22] *Accounting Research Bulletin No. 19* (Dec., 1942), pp. 155–62.
[23] *Accounting Research Bulletin No. 21* (Dec., 1943), pp. 171–77.
[24] *Accounting Research Bulletin No. 25* (April, 1945), pp. 203–14.
[25] *Accounting Research Bulletin No. 26* (Oct., 1946), pp. 215–22.

tion of physical inventories. Under the conditions of war, it was considered acceptable for the accountant to use sampling techniques in verifying the physical existence of inventories.

These problems, along with the reduction in the number of accountants available to practice, put a terrific strain on the profession. Many qualified accountants were called into service. Even under these adverse conditions the profession made a contribution to the war effort equal to that of any other profession by maintaining high professional standards with small numbers of qualified and experienced assistants.

The war-induced shortage of experienced personnel persisted in postwar months, however, and resulted in a case that focused attention upon the need for intensified professional training.

On April 29, 1946, Drayer-Hanson, Incorporated, filed a registration statement with the Securities and Exchange Commission, as specified under the Securities Act of 1933, covering the issuance of Class A stock to the public. The registration statement was accompanied by the financial statements of the company as a partnership and *pro forma* statements as a corporation. The statements were certified by Barrow, Wade, Guthrie and Company. These financial statements represented the net income to be approximately $250,000 for the partnership for a period of ten months ending April 30, 1946, and $91,000 when computed as though the partnership had been incorporated.

The following is an excerpt from the auditor's statement of an opinion:

> We were present only during the taking of a physical inventory, which did not include work in process, as at March 31, 1946, and satisfied ourselves as to the procedure followed in the determination of inventory quantities as to that date.

Sometime in June, 1947, the Commission was advised by Barrow, Wade, Guthrie and Company and Drayer-Hanson that the April 30, 1946, balance sheet and income statement were in error. The error consisted of an overstatement of the work-in-process inventory amounting to $87,000, resulting in an overstatement of the net income and net worth as of April, 1946. The public accounting firm paid to Drayer-Hanson the sum of $87,500, which was the approximate amount of the inventory error, so that the financial condition of the company would not be damaged as a result of the error.

After reviewing the evidence, the Securities and Exchange Commission noted that the public accountants had at once revised their procedure to prevent the recurrence of this happening. Also, the

firm's prompt reporting of the incident and the payment of an amount sufficient to cover the shortage reflected the co-operative attitude of the firm. The recommendation was not to bar Barrow, Wade, Guthrie or its representatives in this incident from practice before the Commission, either temporarily or permanently.[26]

The proceeding in this case pointed out the need for more intensive training on detailed audit procedures. In response to that need, the more progressive public accounting firms began setting up training programs for newly hired junior accountants. Such programs were gradually extended to embrace other auditing department personnel as well, and came to be slanted not only at keeping practicing auditors up to date but also at reviewing the basic auditing programs and standards of the firm. This intensified interest in professional training was probably nourished by the broad contemporary endeavor in American business at large to improve existing methods of developing executive and employee skills.

Legislation and Qualification for Practice

Restrictive legislation for the protection of the investors and businessmen had been advocated for many years. In several states regulatory laws had been passed with the purpose of restricting the practice of public accounting to certified public accountants and registered noncertified public accountants.

In the United States recognition and regulation of the public accounting profession is a function of the state government. The first C.P.A. law in New York in 1896 provided for the issuance of the C.P.A. certificate by a political authority, not a professional society. There was no attempt in the early C.P.A. laws to recognize or regulate noncertified public accountants.[27]

Prior to the enactment of regulatory legislation noncertified public accountants performed all of the functions the certified accountant did. The C.P.A.s then looked on the P.A.s with disdain. In this atmosphere the need for restrictive legislation developed.

There have been four major legal decisions dealing with regulatory legislation. The first two are the State *ex rel* Short, Attorney General *et al.* v. Riedell *et al.* (Oklahoma, October, 1924) and the Frazer v. Shelton case in Illinois in 1926. These two decisions held

[26] "After Hearings, the S.E.C. Dismisses 11 (e) Proceedings against Barrow, Wade, Guthrie and Company Growing out of Drayer-Hanson Case," *The Journal of Accountancy,* LXXXVII (June, 1949), 514.

[27] Jay A. Phillips, "A Summary of State Legislation during the 1946-1947 Season Affecting Accountants," *The Journal of Accountancy,* LXXXIV (Aug., 1946), 131.

that when practice is restricted to those having a certificate from the State Board of Accountancy it is "an unwarranted regulation of private business and the right of the citizen to pursue the ordinary occupations of life." [28] In 1932 the Tennessee Supreme Court held that it was unconstitutional to prohibit the practice of public accountancy by those not licensed as certified accountants or public accountants and cited the above-mentioned Oklahoma and Illinois cases.

The fourth case on constitutionality was decided in December, 1936, by the Wisconsin Supreme Court in the case of Wangerin *et al.* v. Wisconsin State Board of Accountancy, *et al.* This decision held that the Wisconsin accountancy law was constitutional and that it did not limit the right to practice accountancy to persons certified under the act but expressly permitted the right to practice accountancy by others so long as their work was not held out as that of a public accountant.[29]

The court further held that all qualified persons seeking a license as certified public accountants were entitled to receive it upon compliance with the law; that the law made provision for those already engaged in the practice of accountancy who do not seek license as certified public accountants by permitting them to practice as public accountants; that by the terms of the act all those who were engaged in the profession of public accounting when the act took effect were entitled to certificates of authority; and finally, that in making provisions for those already engaged in the practice of accountancy, the legislature followed the established precedent of the medical and other professions.

The work of a public accountant was distinguished from that of a public bookkeeper as follows: [30]

> A person may under contract act as bookkeeper for as many persons or firms as he chooses. It is when he holds himself out to the public as one skilled in the profession of accounting that he comes within the statute.
>
> . . . A bookkeeper can do anything now that he could do before the chapter was enacted, except that he cannot represent himself to be a public accountant. He can render the same service to his employers as any other accountant may render, but it cannot be put before the public as work of a public accountant or a certified public accountant.

The Wisconsin Act limited the practice of accountancy to holders of state-granted certified public accountant certificates and to a

[28] Charles F. Coates, "State Legislation Relative to the Practice of Accountancy," *The Journal of Accountancy*, LXXXII (Sept., 1946), 224.
[29] *Ibid.*, p. 225.
[30] *Ibid.*, p. 226.

closed class consisting of those who were in practice at the date of enactment and presented evidence of four years' experience. They received certificates of authority to continue in practice as "public accountants." This instance was the first in which an accountancy act of the two-class restrictive type was clearly held by a state supreme court to be constitutional.[31]

Today, the problems implicit in regulatory effort are far from solved. Twenty states, plus Alaska and Puerto Rico, have regulatory type accounting laws under which no one may practice public accounting who is not in possession of a license or certificate issued by the respective state authorities. Twenty-eight states, together with the District of Columbia and Hawaii, have permissive type laws that allow anyone to practice public accounting but restrict use of the C.P.A. title to those who hold a certificate.

Regulatory accountancy legislation historically has two principal purposes. The first is to restrict to certified public accountants the right to express opinions regarding financial statements of clients. The second purpose of the legislation is to control the ethics of the profession by authorizing State Boards of Accountancy to promulgate rules of professional conduct.[32] In other words, the goals have been, first, to close the profession to all except certified public accountants and registered noncertified public accountants, and, after that has been accomplished, to control the activities of the members of the profession by the enforcement of a strict code of professional ethics.[33]

The usefulness and the standing of the profession depend on uniformly high standards of performance. Accounting history clearly indicates that it is in the public interest as well as that of the profession that such work be controlled and, so far as possible, limited to persons of established fitness. It has been held that opinion reports should be issued only by certified public accountants, and this restriction of practice can only be achieved by legislative means. However, the immediate effect of legislation accomplishing this goal in one step would be to deprive some persons of an existing right to earn a living — a deprivation that interferes with constitutional rights.[34] Since the profession has not sought a monopoly

[31] Editorial, "Restrictive Act Upheld," *The Journal of Accountancy,* LXIII (Jan., 1937), 10.

[32] William R. Winn, "The Case against Regulatory Accountancy Legislation," *The South Carolina C.P.A.,* V (Oct., 1947), 4.

[33] Robert L. Miller, "Why Regulatory Accounting Legislation Is Unsuccessful," *Public Relations and Legislative Control of the Accounting Profession* (New York: American Institute of Accountants, 1951), p. 30.

[34] E. B. Wilcox, "The Pros and Cons of Regulatory Legislation," *The Indi-*

practice for a special group, an interim period has therefore been deemed necessary during which noncertified public accountants, already in practice, are permitted to continue their practice and enjoy all the privileges accorded to certified public accountants. This group, however, usually carries a special designation other than certified public accountant and, in theory, is limited to those entering practice at or about the date on which the restrictive legislation became effective.[35] However, in some states which have enacted regulatory laws the time has been extended for initial registration. In other states, public accountants have been members of the state board and the practice of public accountancy by other than certified public accountants and licensed public accountants has been authorized. Worst of all, some states have granted C.P.A. certificates by waiver.[36] In the state of Pennsylvania the Institute of Certified Public Accountants actually sponsored a permissive accounting law which would permit public accountants to practice without any regulation.[37]

The officially adopted policy of the American Institute of Accountants is to seek the long-range objective of establishing the "dying class" of registered accountants. The Institute estimates that there are three or four noncertified public accountants for each certified public accountant in the United States. Some members of the profession argue that even interim recognition of the large class of noncertified accountants without any test of their competency cannot improve professional work or conduct. On the contrary, the argument goes, such recognition dilutes the quality of professional work and conduct to the extent of the incompetency of the persons so licensed.[38]

The question then arises as to whether the standards of the profession should be lowered in order to help raise the noncertified public accountants to a level which some are unwilling or unable to attain through their own efforts. The registration of noncertified accountants might well lead to a situation that would place the entire future of the profession in jeopardy. The standing of the account-

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ana Certified Public Accountant (May, 1948), 3.

[35] William D. Cranstoun, "Restrictive Legislation," *The New Jersey C.P.A. Journal*, XXII (Nov., 1951), 1.

[36] Miller, "Why Regulatory Accounting Legislation Is Unsuccessful," *Public Relations and Legislative Control of the Accounting Profession*, p. 31.

[37] Phillips, "A Summary of State Legislation during the 1946–1947 Season Affecting Accountants," *The Journal of Accountancy*, LXXXIV (Aug., 1947), 135.

[38] Miller, "Why Regulatory Accounting Legislation Is Unsuccessful," *ibid.*, p. 31.

ancy profession depends upon the confidence of the public. The public expects the profession to present the facts in an unbiased manner and relies on the facts which they present. If the profession supports permissive legislation for those accountants who are known to be less than fully qualified, the public confidence in the profession may well be shaken.[39]

These are by no means the only problems encountered in attempting to raise professional standards. Dissatisfaction with the poor showing on C.P.A. examination by many candidates inevitably led to stiffening of educational prerequisites for admission to the examination. This step was regarded as necessary by the practitioners in New York, and in 1929 a new law, paragraph 1498-a, provided that on and after January 1, 1938, every candidate for examination for the C.P.A. certificate must be a graduate of an approved course of study at the collegiate level, following completion of an approved four-year high school course. The collegiate course content was divided – half devoted to liberal arts subjects and half to professional studies, with a minimum of 24 hours in accountancy, 8 hours in commercial law, 8 hours in finance, and 6 hours in economics.[40]

This was the first law requiring graduation from college as a prerequisite for the C.P.A. certificate. The popularity of the idea among professional accountants indicates that it may be a precedent which will eventually be written into law in many other states, although to the present time only two other states have done so. In the United States all professions have come to depend heavily upon the universities. The apprenticeship system alone has become inadequate to serve the needs of modern business.[41] But a slow evolutionary period will have to follow before a reasonable balance is reached between educational and apprenticeship training. Most state C.P.A. laws, however, reduce or eliminate the experience requirement if the candidate has a college degree. Thus some recognition is given even now to the value of study in colleges and universities.

The American Institute of Accountants Committee on Education recommended, as late as 1945, that all candidates should have at least a high school education.[42] It seems evident, then, that the In-

[39] Winn, "The Case against Regulatory Accountancy Legislation," *ibid.*, 7.

[40] Emanuel Saxe, "Role of the Society in Accounting Education," in *The New York State Society of Certified Public Accountants, Fiftieth Anniversary*, p. 25.

[41] Editorial, "College Degree as C.P.A. Prerequisite," *The Journal of Accountancy*, LXIII (May, 1937), 321.

[42] Editorial, "Educational Program of the American Institute," *The Journal of Accountancy*, LXXIX (March, 1945), 228.

stitute's Committee has been pessimistic about raising the educational requirements for candidates in the near future. The Institute has recently appointed a committee to study this problem thoroughly. It will therefore probably be several years, if not decades, before all states require college training.

A corollary to these educational efforts has been the attempt to improve the C.P.A. examination itself. In 1941 the Association of C.P.A. Examiners and the board of examiners of the American Institute of Accountants met in Detroit to consider the subject of planned examinations for future C.P.A. candidates. The recommendations drawn and approved by both committees included the following: [43]

> There should be four separate subjects in the general examination; namely, auditing, law, accounting theory, and accounting practice. Each should be the subject of at least a half-day examination.
>
> The general subject examinations should be extended to 2-½ days consisting of three mornings of 3-½ hours each and two afternoons of 4-½ hours each.
>
> The various topics under each subject should be included in the scope of the examinations with major topics appearing frequently, and minor topics being rotated in such a manner as to cover the entire subject in a five-year cycle.
>
> Topics properly a part of one subject should not be transferred to another subject since in most states candidates are given final credit by subjects.
>
> The C.P.A. examination should be set at a level to test the ability of the candidate to qualify as a senior accountant.

Planned examinations, however, were not new. In 1920 such examinations were given by 24 states; in 1930, by 34; in 1940, by 41; and in 1950, by 46.[44]

Professional Organization

The evolution of public accounting in the United States has also gone hand-in-hand with changes in professional organization, and has to a considerable extent been influenced by such changes. In 1924 the National Association of Certified Public Accountants, a private corporation, was enjoined by the federal government from the practice of selling C.P.A. certificates, and the right of states to regulate the profession was confirmed. Soon thereafter, attempts were made to consolidate the American Society of Certified Public Accountants and the American Institute of Accountants. These

[43] Norman E. Webster, "Planned Examination," *The Journal of Accountancy*, LXXV (April, 1943), 348.

[44] American Institute of Accountants chart, "Year in which State Used the Uniform C.P.A. Examination."

attempts failed because the members of these two national associations did not feel that there was any necessity to form a solid front.

In 1934 and 1935, however, a movement was inaugurated looking toward the substitution of a single national organization. The American Institute and the American Society each appointed committees to meet in an effort to reach a common basis for merger.

The first accomplishment of the joint committee was to reach an agreement that the profession had progressed to the point where a single national organization was needed. Major points involving the proposed organizational structure were considered, and, after a subsequent conference of state society presidents or delegates in 1936, a joint report was prepared which, it was hoped, would receive the approval of both organizations. The entire Institute committee approved the report, but two members of the Society committee declined to sign. One of these members objected to the proposed increase in dues and the other on the grounds that while "a single national organization representing the recognized profession of accountancy in the United States is highly desirable," the joint merger report trusted too much to future possibilities rather than being based on any definite knowledge of what the profession really desired.[45]

Despite objections of this nature, the merger plan matured. The vote for one national organization was 1,571 in favor and 70 against out of 2,835 who were entitled to vote, and the American Society of Certified Public Accountants and the American Institute of Accountants became "one national organization," temporarily retaining the name American Institute of Accountants.[46] The last annual meeting of the Society was held at Fort Worth, Texas, October 17 and 18, 1936, at which time the final arrangements were made to transfer the members to the Institute.[47] The meeting of the Institute was held in Dallas, Texas, October 19–22, 1936, at which time the merger of the two organizations was completed and the list of members of the Society eligible for membership was agreed upon.[48]

Two points were left for subsequent decision.[49] One was the in-

[45] Editorial, "A Single National Organization," *The Certified Public Accountant,* XV (Oct., 1935), 604.

[46] Harry M. Jay, "Consolidation — Now What," *The Certified Public Accountant,* XVI (Oct., 1936), 569.

[47] Editorial, "The Consolidation," *The Certified Public Accountant,* XVI (Sept., 1936), 517.

[48] Editorial, "Institute's Annual Meeting," *The Journal of Accountancy,* LXII (Sept., 1936), 164.

[49] Editorial, "Proposed Amendments to By-Laws," *The Certified Public Accountant,* XVII (Feb., 1937), 10.

clusion of the important qualifying phrase "Certified Public" in the name of the organization. The other was the method of nomination and election of members of the governing body – an important point that reflected a long-standing desire for equitable geographic representation and avoidance of domination by New York members. Neither the change of title nor the plans for equalizing geographic representation, however, were adopted. The governing council of the Institute was nominated at large and elected by the entire membership of the organization. The council was composed of 35 members, 7 of them elected each year. But no more than six members of the council of the American Institute of Accountants could be from one state and by custom no more than two could be members of the same firm.

One important function of the professional organization was to carry on publication activities. In 1931, the American Institute Publishing Company, Inc., was formed; all of the capital stock is owned by the old American Institute of Accountants. This venture was launched at a particularly difficult time from an economic point of view, but the Institute members wanted to control publication activities of the organization and improve communications within the profession during this period when it was important for accountants to keep in close contact with the developments in business as well as in the accountancy profession.

The Institute Publishing Company assumed direct responsibility for publication of *The Journal of Accountancy* and the *Certified Public Accountant Bulletins.* Several books were published by this company, *Evolution of Accounting to 1900*, by A. C. Littleton, *Twenty-five Years of Accounting Responsibility*, by George O. May, and *Origin and Evolution of Double-Entry Bookkeeping*, by Edward Peragallo, to mention a few. Also several monographs, the most notable being *A Statement of Accounting Principles*, by Henry R. Hatfield.

The Lawyer-Accountant Conflict

Before May 15, 1939, applicants for enrollment to practice before the Treasury Department of the United States were required to show:

> that they are of good character and in good repute, possessed of the necessary qualifications to enable them to render such claimants valuable service, and otherwise competent to advise and assist such claimants in the presentation of their cases.

It was further provided by the Treasury Committee on Enrollment and Disbarment that applicants must demonstrate, by passing a prescribed examination, that they possessed:

the educational background, technical knowledge and ability essential to the proper understanding of federal tax matters and the presentation of the same before the Treasury Department.

Attorneys at law and certified public accountants who had received their certificate by examination were exempt from this special test.

One of the primary functions of a certified public accountant in auditing corporate books is to determine the corporation's income from its books of accounts and to produce a formal statement. But when the federal tax on income was accepted as a constitutional amendment in 1913, it became necessary for the information contained in the income statement compiled by the corporation's auditor to be transferred to a tax return. Before the federal income tax law became so complex, it was a simple matter for the C.P.A. to do this. He was on the ground and knew the situation; therefore, it was natural for a corporation to call upon its auditors to prepare the tax returns. This practice became generally accepted.

Many lawyers considered that the preparation of tax returns involved activities equivalent to the practice of law. This issue was raised in litigation on several occasions.

In 1935, the American Bar Association first considered the question of who should prepare income tax returns and discussed the matter with the American Institute of Accountants' Committee on Co-operation with the Bar Association. In 1938 the Bar Association's Committee on the Unauthorized Practice of Law, under the chairmanship of Stanley H. Houck, issued a formal statement in the section devoted to "Accountants." The statement is as follows: [50]

It is the view of the Committee that it is the practice of law to engage in any of the following activities:

(1) To give advice regarding the validity of tax statutes or regulations or the effect thereof in respect of matters outside of accounting procedure.

(2) To determine legal questions preliminary or prerequisite to the making of a lawful return in a lawful manner.

(3) To prepare protests against tax adjustments, deficiencies, or assessments.

(4) To represent a taxpayer at a conference with administratives in relation to matters outside of accounting procedure.

(5) To prepare claims for refunds of taxes.

[50] David F. Maxwell and William Charles, "National Conference of Lawyers and C.P.A.," *The Journal of Accountancy*, LXXXI (Feb., 1946), 121.

(6) To prepare petitions, stipulations, or orders incident to the review of assessments by the United States Board of Tax Appeals or any like administrative tribunal.

(7) To conduct the trial of issues before the United States Board of Tax Appeals or any like administrative tribunal.

Shortly after the issuance of this statement, the Unauthorized Practice of Law Committee met with representatives of the American Institute of Accountants to discuss the matter. The discussion extended over several months, but the two groups were unable, or unwilling to reconcile their points of view.

Finally, the negotiations ceased altogether and lawyers and certified public accountants continued to engage in tax practice. The feeling of antagonism between the two professions may have been intensified.

On May 15, 1939, the Treasury Committee on Enrollment and Disbarment amended regulations so as to restrict further admissions to practice before the Treasury Department to attorneys and certified public accountants. The amended regulation read as follows: [51]

Qualifications for enrollment. (a) Persons of the following classes who are found, upon consideration of their applications, to possess the qualifications required by these regulations may be admitted to practice before the Treasury Department as attorneys or agents respectively:

1. Attorneys at law who have been admitted to practice before the courts of the States, territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in the active practice of their profession.

2. Certified public accountants who have duly qualified to practice as certified public accountants in their own names, under the laws and regulations of the states, territories, or District of Columbia, in which they maintain offices, and who are lawfully engaged in active practice as certified public accountants.

There was another amendment to the rules providing for special enrollment for presentations before particular bureaus or divisions of the Treasury. This amendment permitted an applicant not an attorney nor a certified public accountant to become enrolled by satisfying the Committee on Enrollment and Disbarment, by examination and otherwise, of his qualifications to render valuable services to claimants.[52] These 1939 measures, while directed at improving the handling of tax cases, did nothing to resolve the lawyer-accountant conflict.

It had long been the conviction of eminent members of both the

[51] Editorial, "Practice before Treasury Department," *The Journal of Accountancy*, LXVIII (July, 1939), 1.
[52] *Ibid.* (Aug., 1939), 79.

legal and the accounting professions that the two had many common interests. The close relationship between lawyers and accountants in practice, especially in dealing with corporate problems, led to a belief that there should be a closer relationship between the organizations representing the two professions. In 1944, a step toward achievement of this objective was the adoption of resolutions by the house of delegates of the American Bar Association and the executive committee of the American Institute of Accountants, authorizing the establishment of a national conference of lawyers and accountants composed of five representatives from each organization. The representatives from each profession were to be appointed by the respective presidents.

The objectives of the new organization, the National Conference of Lawyers and Accountants, were expressed after the first meeting on May 6, 1944, in the following terms: [53]

1. To further the development of professional standards in both professions.

2. To encourage co-operation between the two professions for the benefit of each and the public.

3. To consider misunderstandings, involving fundamental issues, between the two professions and recommend means for disposing of them.

4. To devise ways and methods of expanding the usefulness to the public of both.

5. To seek means of protecting the public against practice in these respective fields by persons not qualified to serve the public.

The committee then set about the difficult task of drawing up a declaration of principles which would serve as a guide for the conduct of the two professions in their relations with clients and the public. Certain fundamental principles were recognized immediately. The lawyer committee members conceded that an income tax return requiring simply the setting down of factual data from the corporate income statement could be prepared by a C.P.A. On the other hand, the accountant members of the group conceded that they were not qualified to prepare legal documents such as articles of incorporation, contracts, deeds, and wills.

Finally, on September 10, 1944, the following agreement was placed in writing: [54]

[53] "Lawyers and Accountants," *The Journal of Accountancy,* LXXVII (June, 1944), 512.

[54] Maxwell and Charles, "The National Conference of Lawyers and Certified Public Accountants," *The Journal of Accountancy,* LXXXI (Feb., 1946), 124.

Whereas, Lawyers and Certified Public Accountants are trained professional men, licensed by the several states, and required to bring to their public service qualifications both as to competency and character; and

Whereas, The American Bar Association and the American Institute of Accountants have adopted codes of ethics to assume high standards of practice in both professions;

Be it Resolved, In the opinion of the National Conference of Lawyers and Certified Public Accountants

1. That the public will be best served if tax returns are prepared either by certified public accountants or lawyers.

2. That it is in the public interest for lawyers to recommend the employment of certified public accountants and for certified public accountants to recommend the employment of lawyers in any matter where the services of either would be helpful to the client; and that neither profession should assume to perform the functions of the other.

3. That certified public accountants should not prepare legal documents, such as articles of incorporation, corporate by-laws, contracts, deeds, trust agreements, wills, and similar documents. Where, in connection with such documents, questions of accountancy are involved or may result, it is advisable that certified public accountants be consulted.

Notwithstanding such declarations, the lawyer-accountant jurisdictional dispute soon flared up again — this time in the guise of the Bercu case. Bernard Bercu was a certified public accountant in New York City and a member of the New York State Society. In 1943, he prepared a memorandum regarding the deductibility, in the federal income tax return for that year of the Craft Streets Products Company, Inc., of additional sales taxes for the years 1935, 1936, and 1937, the liability for which was in dispute. Settlement with the City of New York was reached in 1943, and payment of these taxes in the sum of $12,000 was made in that year.

Bercu expressed the opinion that under a Treasury ruling the tax settlement was properly deductible in 1943, in which year the Craft Company had a substantial profit and was in the excess-profits-tax bracket. The company's accountant, who was also a lawyer, had previously advised that taxes could only be deducted in the earlier years to which they applied, in which years there had been losses and hence no benefit from the carry-back would be obtained. Bercu did not prepare the income tax return for the Craft Company and was not the company's regular accountant.[55]

On December 31, 1943, Bercu submitted a bill for services rendered in the amount of $500, which was not paid, and he sued for collection. The Municipal Court dismissed the case on motion of the

[55] Percival F. Brundage, "The Bercu Case," *The New York Certified Public Accountant*, XVII (May, 1947), 278.

defense counsel to the effect that Bercu had been engaged in the unlawful practice of the law. Bercu started an appeal but discontinued it because of the expense involved. The New York County Lawyers' Association thereupon petitioned the Supreme Court of New York to punish Bercu for contempt and to enjoin him from the further unlawful practice of the law. At this point the New York State Society of Certified Public Accountants joined in the defense of Bercu and was assisted by the American Institute of Accountants. Hearings were held on March 18, 1947. Excerpts from the decision follow: [56]

> . . . the advice which the respondent Bercu gave in this case was based upon a ruling of the Income Tax Unit of the Treasury Department. This is an administrative ruling which does not even bind the Department, much less the courts. The Department promulgating these rulings is staffed principally by accountants. Bercu undoubtedly knew this and treated the ruling as amounting to what was considered by accountants to be sound accounting practice. . . .
>
> Perhaps the entire subject of unlawful practice of law in this state should be studied by a legislative commission or by the existing Law Revision Commission. The problem, as has been indicated, is essentially one for the legislature and not for the courts.
>
> The motion is accordingly disposed of as follows: In so far as it seeks injunctive relief, it is dismissed for noncompliance with the provision of article 75-a of the Civil Practice Act; in so far as it seeks to punish for contempt, it is denied and the proceeding dismissed on the merits. Settle order.

The case was then appealed to the New York Appellate Court of the State of New York. This court reversed the decision handed down by the Supreme Court of that State in the Bercu case. The following excerpt is from the decision handed down in February, 1948: [57]

> . . . When, however, a taxpayer is confronted with a tax question so involved and difficult that it must go beyond its regular accountant and seek outside tax law advice, the consideration of convenience and economy in favor of letting its accountant handle the matter no longer apply, and consideration of public protection requires that such advice be sought from a qualified lawyer. At that point, at least, the lines must be drawn. The line does not impinge upon any of the business or public interests which respondent cites or oust the accountant from the tax field or prejudice him in any way in the pursuit of his profession or create any monopoly in the tax field in favor of the legal profession. It allows the accountant maximum freedom of action within the field which might be called "tax accounting" and is the minimum of control necessary to give the public protection when it seeks advice as to tax law.

[56] "Official Decisions and Releases — Text of the Bercu Case," *The Journal of Accountancy*, LXXXIII (April, 1947), 348.

[57] "Official Decision and Releases — Lawyers' View of Accountants' Practice before Tax Court," *The Journal of Accountancy*, LXXXV (May, 1948), 434.

The order appealed from should be reversed, respondent adjudged in contempt and fined $50 and an injunction as prayed for issued.

The case was not yet settled even with this decision, but was brought before the Court of Appeals of the State of New York. That court, the highest in the state, on July 19, 1949, affirmed unanimously, without opinion, the appellate division's decision against Bercu.[58]

Following this decision, the National Conference of Lawyers and Certified Public Accountants held another meeting. The statement resulting from this meeting represented an effort to prevent future occurrences of public conflict between the two professions, and was unanimously approved by the American Institute of Accountants and the Board of Governors and House of Delegates of the American Bar Association.

Excerpts from the statement of principles relating to practice in the federal income taxation field follow:[59]

1. Collaboration of Lawyers and Certified Public Accountants Desirable. . . . Lawyers should encourage their clients to seek the advice of certified public accountants whenever accounting problems arise and certified public accountants should encourage clients to seek the advice of lawyers whenever legal questions are presented.

2. Preparation of Federal Income Tax Returns. It is a proper function of a lawyer or a certified public accountant to prepare federal income tax returns.

3. Ascertainment of Probable Tax Effects of Transactions. . . .
In many cases, therefore, the public will be best served by utilizing the joint skills of both professions.

4. Preparation of Legal and Accounting Documents. Only a lawyer may prepare legal documents such as agreements, conveyances, trust instruments, wills. . . .
Only an accountant may properly advise as to the preparation of financial statements included in reports as submitted with tax returns, or as to accounting methods and procedures.

5. Prohibited Self-Designations. An accountant should not describe himself as a "tax consultant" or "tax expert" or use any similar phrase. Lawyers, similarly, are prohibited by the canons of ethics of the American Bar Association and the opinions relating thereto, from advertising a special branch of law practice.

6. Representative of Taxpayers before Treasury Department. . . . If in the course of such proceedings, questions arise involving the application of legal principles, a lawyer should be retained, and, if in the course of such proceedings accounting questions arise, a certified public accountant should be retained.

[58] Editorial, "Bercu Case on Tax Practice Upheld in New York Court of Appeals," *The Journal of Accountancy*, LXXXVIII (Aug., 1949), 93.
[59] "National Conference of Lawyers and Certified Public Accountants," *The Journal of Accountancy*, XCI (June, 1951), 871.

7. Practice before the Tax Court of the United States. Under the Tax Court rules non-lawyers may be admitted to practice. . . .

Here also, as in proceedings before the Treasury Department, the taxpayer, in many cases, is best served by the combined skills of both lawyers and certified public accountants, and the taxpayers, in such cases, should be advised accordingly.

8. Claims for Refund. Claims for refund may be prepared by lawyers or certified public accountants, provided, however, that where a controversial legal issue is involved or where the claim is to be made the basis of litigation, the services of a lawyer should be obtained.

9. Criminal Tax Investigation. When a certified public accountant learns that his client is being specially investigated for possible criminal violation of the income tax law, he should advise his client to seek the advice of a lawyer to determine his legal and constitutional rights.

It was the hope of both professions that under these rules the professions could continue in income tax practice, and every effort was made by the two groups to reconcile their differences in an honorable way. Despite evidence that the National Conference of Lawyers and Certified Public Accountants and local organizations seem to have made progress toward reconciling the lawyer-accountant conflict, however, problems still exist that promise to exert a substantial further influence upon the evolution of accounting practice and the accounting profession in the years to come.

Summary

The responsibility of the public accounting profession has been extended by a re-emphasis on auditing occasioned by the depression-stimulated passage of the securities acts and the subsequent regulations of the Securities and Exchange Commission. Further refinements in auditing practice derived from the McKesson & Robbins case.

World War II resulted in new demands on the accounting profession, which it met with notable success. Cost-plus contracts, renegotiation, and contract termination all called for skilled, creative accounting work. The profession undertook this work and also played an important part in the formation of the policy of the government in regard to these matters. In the process, constructive new techniques were evolved. But there were also difficulties, such as those occasioned by shortages of trained personnel, that in turn influenced the postwar evolution of professional practice.

With the merger of the American Society of Certified Public Accountants and the American Institute of Accountants, the public accounting profession seems finally to have achieved unity. Aside

from the influence of the federal government in the field of auditing, the national professional organization itself has defined and elaborated the generally accepted auditing procedures. The Institute's Committee on Audit Procedures and the Committee on Accounting Procedures have become established as the authorities on matters of public accounting theory and practice.

The continued acceptance of public accountants as qualified to practice before the income tax courts reflects the recognition given the profession by the government. The friction between the legal profession and certified public accountants, however, has not been settled, although the National Conference of Lawyers and Certified Public Accountants has established rules under which the accountants continue to engage in tax practice.

An examination of these major topics in the 1928–1951 period at once reveals the fact that development of accounting practice and of the accounting profession in the United States has been primarily affected by external influences – economic, legal, and political. This is not to say, however, that accountants have been unable to influence their own fate. With the growth of a strong national organization, the evolution of high and clear-cut professional standards, and the achievement of recognition as an indispensable ally to business efficiency, accountants today are in a position to react quickly, intelligently, and in a cohesive manner to the stimuli of an always changing environment.

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The Origins and Establishment of the First Bank of the United States

In the early days of the Republic, opposition to a national bank derived from fear, ignorance, and a basic cleavage of prophecy. To many persons banks were synonymous with speculation; others viewed them as "aristocratic engines" designed to advance the interests of the few over those of the many. Most important, however, was the discrepancy of viewpoints between those who envisaged an agricultural nation and those who already sensed the embryonic stirrings of a vast industrial economy. To the latter, a strong central bank seemed indispensable. The struggle to establish the First Bank of the United States emphasized the rural-urban cleavage that was to influence much nineteenth-century history. It was also a conspicuous early recourse to implied Constitutional powers, anathema to States' Rights defenders and a great hope of businessmen in a still feeble nation.

On December 14, 1790, Secretary of the Treasury Alexander Hamilton transmitted to the House of Representatives one of his most famous public documents, the plan for a national bank.[1] Hamilton's bank plan and the report that contained its outlines were products of much thinking on the Secretary's part and arose from the troubled state of national finances during and after the Revolution, a state of affairs that Hamilton had witnessed at its cruelest. The plan for a national bank was not Hamilton's alone but he was its strongest partisan and fought hardest for its adoption. The leaders of the new nation were well aware that their troubled finances were not unique and that history afforded many examples of new and expanding nations that found their economies in need of strengthening. Hamilton was especially aware of historical precedent concerning his national bank.

The leaders of the United States were English by heritage and

[1] For the complete text of Hamilton's message see Henry Cabot Lodge (ed.), *The Works of Alexander Hamilton* (New York, 1904), III, 338-43. This was not the first such plan that Hamilton had drafted. In 1784 he drew up the constitution and petition for a state charter for the Bank of New York and ultimately sat on that bank's board of directors. *Ibid.*, IX, 396–98; Nathan Schachner, *Alexander Hamilton* (New York, 1946), 182.

their knowledge of banking and finance was largely English in origin. The one great banking and commercial institution with which they were familiar was the Bank of England. Most American leaders of the Confederation period knew something of the history of that bank's operations. As early as 1781, Hamilton was drawing on English precedent to support his plan for a national bank. Taking time out to write Robert Morris, Hamilton cautiously outlined his plan and used English history to support the idea:[2]

> The long and expensive wars of King William had drained England of its specie; its commerce began to droop for want of a proper medium; its taxes were unproductive and its revenues declined. The administration wisely had recourse to the institution of a bank; and it relieved the national difficulties. We are in the same, and still greater, want of a sufficient medium.

We are in the same, and still greater, want of a sufficient medium. It was what he thought to be the likeness of the English and American situations that turned Hamilton to the Bank of England for a model.

The English Precedent

There were few evidences of anything that could be called systematic banking in England before the seventeenth century. Money was circulated through the money changers who dealt in coin, not in credit. Since the most important function of modern banking is the facilitation of credit and discount, not the mere handling of money, the founding of such an institution as the Bank of England in 1694, dedicated to this purpose, was an event of great importance. At that time it was still the custom among the wealthy to store their valuables — plate, gold and silver coins, and other forms of easily movable wealth — with goldsmiths and silversmiths who made a tidy profit out of their transactions.[3]

Like the later First Bank of the United States, the Bank of England was established as a result of war and revolution which had seriously impaired the government's credit and was intended primarily as an asset to state finances. Hamilton was fully aware of this fact. Anxious to restore the government's credit during the long and costly French wars of the seventeenth century the government of William III proposed to establish a central bank operating under a government charter. Such a proposal would have been dangerous in the Stuart era because of the possibility that the monarch

[2] Hamilton to Robert Morris (April 30, 1781), *Works*, III, 363–64.

[3] John Clapham, *The Bank of England 1694–1797* (Cambridge, 1944), 10–13, 29–33.

might manipulate the Bank and make himself financially independent of Commons.[4] By 1694, however, that possibility had receded. Such a bank, however, was under the control of Parliament and was conceivably open to manipulation by the groups that controlled Parliament.[5]

When the plan was first proposed the English Tories, especially the country gentry who were jealous and afraid of the growing wealth and political power of London and other cities, opposed it on much the same terms that some Americans opposed the Bank of the United States a century later: [6]

> The project was violently opposed by a strong party, who affirmed that it would become a monopoly, and engross the whole money of the kingdom: that as it must infallibly be subservient to government views, it might be employed to the worst purposes of arbitrary power: that, instead of assisting it would weaken commerce, by tempting people to withdraw their money from trade and employ it in stockjobbing: that it would produce a swarm of brokers and jobbers to prey upon their fellow creatures, encourage fraud and gaming and further corrupt the morals of the people.

The opposition to the Bank crystallized around two arguments, both of which later formed the focus of opposition to the Bank of the United States: that the proposed project would become a government subsidized monopoly designed to benefit only a small part of the population; and that the proposed plan would in time corrupt the bases of society. The last point was one to which the landed Englishmen of the time were particularly sensitive. The gentry realized only too well that it was losing political and social power to the cities. Banks would make capital available for urban development and expansion and therefore were evil. For the gentry of seventeenth-century England such banks and such expansion could only further "corrupt the morals of the people."

Likewise, the arguments advanced in support of the idea were almost identical to those advanced in favor of the Bank of the United States: [7]

> They said it would rescue the nation out of the hands of extortioners and usurers, lower interest rates, raise the value of land, revive and establish public credit, extend circulation, consequently improve commerce, facilitate the annual supplies, and connect the people more closely with the government.

[4] G. N. Clark, *The Later Stuarts 1660–1714* (London, 1934), 170–71.

[5] Henry Hamilton, *England* (New York, 1948), 223.

[6] Tobias Smollett, *The History of England From the Revolution To The Death of George The Second* (London, 1804), IX, 217–18.

[7] *Ibid.*, 217.

The things that the Bank was supposed to do were the things that the country gentry feared most — make capital available and extend commerce. It proposed to aid in changing English society from one which lived in the country to one which lived in the city; it proposed to be one vehicle whereby Englishmen could leave the farm for the factory and mill.

Despite Tory opposition the Bank was chartered by Commons in 1694. The Bank was not permitted to trade in anything except gold and silver bullion and could sell only those goods which had been left with it as collateral and defaulted upon. As a corporation it could hold lands but could not purchase crown property and could not lend "except against funds arising from some public source prescribed by Parliament." Members of Parliament were permitted "to be concerned with the corporation." [8] The purpose of the two prohibitive clauses was first, to prevent the Bank from competing with merchants in the sale of goods and second, to prevent the Crown from making itself financially independent of Parliament.

The subscribers to the Bank's stock were to receive 8 per cent interest and the privilege of being the government's bankers; this in return for a loan of 1,200,000 pounds to the government. Shortly after its establishment the Bank was formally accorded a monopoly when Parliament passed an act declaring that no chartered banks or partnerships exceeding six persons could carry on banking. The privilege remained until 1826.[9] By the time of the Peace of Utrecht (1713) the interest rate had fallen to 4 per cent and in 1732 a 3 per cent government stock had risen above par. "But the effect of the Bank upon government borrowing was the least of its services to the country. It gave to the operations of trade an ease and security that nothing else could have done, and without it [neither] the expansion of commerce nor the industrial revolution would have been possible." [10] Time brought about exactly the things that the Tories had feared — increases in the political power of the cities and the enormous growth of commerce and manufacturing. There were many who traced this growth to the operations of banks which made capital available for industrial expansion. The influence of banks on industry was to be a question of primary importance in the discussions that surrounded the establishment of the Bank of the United States.

[8] Clapham, *The Bank of England*, 18. The English were very impressed with the success that the Dutch had had with banking systems.

[9] Hamilton, *England*, 223.

[10] Henry John Randall, *The Creative Centuries* (London, 1947), 335.

The similarities of the English and American situations were obvious to Hamilton — weak state finances brought about by war and revolution; opposition from agrarian groups; the pressing need of the government for funds.

The Bank of England was not the only state bank to which Hamilton could appeal for precedent; there were precedents even in the short span of American history. In addition to the land and silver banks of colonial days there had been established in 1781 in Philadelphia the Bank of North America, operating under charters granted by several states and the Continental Congress. Established in the midst of great confusion, much of that bank's work remained shrouded in mystery, but two points stood out to Hamilton: it had made money for its investors and it had operated under a charter granted by the Continental Congress, whose funds had made its establishment possible. [11]

Since there was some doubt about the power of the Congress to grant corporate charters, the bank had obtained charters from Pennsylvania, Delaware, Maine, and New York but transacted most of its business under the Pennsylvania charter. The Congressional charter was actually little used.[12]

Robert Morris, Superintendent of Finance at the time, was the prime mover behind the bank and became its director. The bank was established as a means of financing the war and of making money available for the purchase of military supplies. Although the bank was authorized by its charters to raise ten million dollars in capital stock, an ambitious amount, purchase of stock was slow because of the military and political uncertainties caused by the war. Individuals purchased $85,000 worth of stock. The government pledged itself to take $250,000 worth but actually only paid $50,000 into the bank's fund. Morris finally received a shipment of specie from France late in 1781 and managed to get the bank into operation. Instead of the ten million dollars hoped for, the bank got under way with only three hundred thousand dollars' worth of capital stock.[13]

[11] The bank's charter is outlined in W. C. Ford (ed.), *The Journals of the Continental Congress* (Washington, 1934), XX, 545–46. The best discussion of the bank's trials and troubles is found in Merrill Jensen, *The New Nation* (New York, 1950), 227–33.

[12] Walter Wyatt, "Federal Banking Legislation," *Banking Studies* (Baltimore, 1941), 39.

[13] J. Franklin Jameson, *The American Revolution Considered As A Social Movement* (Boston: Beacon Edition, 1956), 64.

The bank recruited much support from businessmen, but came under heavy fire from the farmers and city artisans. Farmers objected to the high interest rates charged on loans by the bank, interest rates which sometimes reached 16 per cent and even 96 per cent per year.[14] The farmers and artisans feared the bank's virtual monopoly and proposed the establishment of more banks so that competition would lower the interest rates and improve banking services. This was an objection that was to be charged against the Bank of the United States. The fact that such a bank, as the only lending agency in a given area, might monopolize interest rates and control the flow of currency and loans under what amounted to government protection was the strongest argument used by the farmers in their fight against central banks.[15]

When the bank came under attack a group of prominent men came to its rescue. James Wilson, Gouverneur Morris, Thomas Fitzsimmons, and others explained that the bank was working for the good of the United States and Pennsylvania alike and opposed the creation of new banks as being dangerous to commerce. They held that an enlarged bank rather than a system of smaller ones would be the answer to the banking problem.[16]

In addition to being attacked for its high interest rates the bank was also attacked on the grounds that it lent money too freely for speculation. James Wilson borrowed $100,000 which presumably was used in land speculation.[17] Farmers could hardly help noting that the men who supported the bank most strongly had ready access to its capital.

Hamilton cited the Bank of North America for precedent in his report on the national bank and affirmed that its aid to the government had been substantial and perhaps crucial both during and after the war. "The aid afforded to the United States by this institution during the remaining period of the war was of essential consequence; and its conduct towards them after the peace has not weakened its title to their patronage and favor." [18] In concluding

[14] Jensen, *The New Nation*, 229.

[15] The bank was particularly important to many businessmen because of its services in rendering discounts and in making specie available. By virtue of the fact that it could control the amount of money out in loans in a given area the bank exerted a profound influence on agricultural prices. Anne Bezanson, *et al.*, *Prices and Inflation During the American Revolution* (Philadelphia, 1951), 260, 263, 301, 304.

[16] *Pennsylvania Gazette*, March 3, 1784; cited in Jensen, *The New Nation*, 229.

[17] *Ibid.*

[18] *Works*, III, 415.

his report he suggested that if the Bank of North America was willing and able to reorganize and expand its services and become a national bank the House should seriously consider the proposal since it would save much time and controversy.[19]

The Essential Expedient

Hamilton, then, knew of the activities of previous state banks. As early as 1779, Hamilton wrote John Sullivan, member of Congress from New Hampshire, concerning the necessity of founding some sort of national banking system if the nation's credit and currency were to be salvaged.[20] "The only plan that can preserve the currency is one that will make it the *immediate* interest of the moneyed men to co-operate with the government in its support."[21] At this point in 1779 Hamilton had no fears of an economic oligarchy. His urgent desire for strong state finances was prompted by two things – the English example and the hopeless confusion wrought on the American war effort by lack of stable currency. The question of monopoly was not one which concerned him greatly; even if monopoly should prove inevitable it seemed a small price to pay for strong government and a stable currency.

He realized that a national bank would not solve all the country's problems, indeed, that it might create some new ones:[22]

> I do not believe that the advantages will be so great in fact, as they seem to be in speculation. They will be limited by the means of commerce which the States produce; and these may not be so extensive in the beginning as the plan supposes. Besides this, the profits of the commerce will not be so large, in proportion, after the first or second year, as during those years; neither will it be possible to increase the paper credit in the same degree. But the Bank of England is a striking example, how far this may be carried, when supported by public authority and private influence.

Later, in a letter to Robert Morris, Hamilton again pointed out the urgent need of establishing a national bank: "This I regard, in some shape or other, as an expedient essential to our safety and success. . . . There is no other that can give to government that extensive and systematic credit which the defect of our revenues makes indespensibly necessary to its operations."[23] Launching into a

[19] *Ibid.*, 443.

[20] Lodge listed this letter as one written to Robert Morris and dated it 1780. Recent scholarship has proved that it was actually written to Sullivan in 1779. Schachner, *Alexander Hamilton*, 97–101, 444, n46.

[21] *Works*, III, 332.

[22] *Ibid.*, 338–39.

[23] *Ibid.*, 360.

lengthy discussion of historical precedent, he continued by asserting that most nations had long since established central banking systems and that to these they owed their sound currency and credit:[24]

Most commercial nations have found it necessary to institute banks; and they have proved to be the happiest engines that ever were invented for advancing trade. Venice, Genoa, Hamburg, Holland and England are examples of their utility. They owe their riches, commerce, and the figure they have made at different periods, in a great degree to this source. Great Britain is indebted for the immense efforts she has been able to make, in so many illustrious and successful wars, essentially to that vast fabric of credit raised on this foundation. 'Tis by this alone she now menaces our independence.

Here was the logical conclusion of Hamilton's economic philosophy: commercial greatness equaled political greatness; the nation that was supreme in the field of economics was truly a great power. His assumption that the United States would be a great commercial nation and therefore a world power was explicit in the opening sentence of this quotation. It was an assumption that caused his agrarian opponents to recoil. The very list of nations that he cited as glowing examples – Genoa, Venice, Hamburg, Holland – were examples in which the agrarians found little cheer. His enemies could agree that the government should be solvent, disagreeing that a banking system would lead to that solvency. They also insisted that a nation could be great and not be a commercial nation. Indeed, they were to insist that the very seeds of destruction were sown in commerce and industry.

Morris, himself a prime mover in Revolutionary and Confederation finances, had long been a supporter of the national bank plan. In the summer of 1781, perhaps stimulated by Hamilton's thinking, he wrote Jefferson some of his own ideas on the subject and asked for the Virginian's own. "It is in vain to think of carrying on war any longer by means of such depreciating medium and at the same time an efficient circulation of paper that cannot depreciate is absolutely necessary to anticipate the revenue of America," he wrote. "A national bank is not only the most certain but will prove the most useful and economical means of doing so."[25] Morris, like Hamilton, went on to say that such a bank would not only aid in a consolidation of the public credit but would also act as an agency of investment, thus aiding industry and commerce.

[24] *Ibid.*, 362.

[25] Julian P. Boyd (ed.), *The Papers of Thomas Jefferson* (Princeton, 1950), VI, 87–88. There is no indication that Jefferson actually received the letter but it was addressed to him and was obviously intended for him alone.

There was little doubt that a national bank was one of the pillars of Hamilton's financial structure long before his report recommending its establishment was sent to Congress. Hamilton was fully aware that his own political future rested on his performance as Secretary of the Treasury and for this reason and because of his desire to bolster and insure the survival of the central government he formulated his fiscal policies with great care.

Although the report on the national bank was submitted to the House of Representatives, the Senate considered it first. That inveterate diarist Senator William Maclay of Pennsylvania recorded:[26]

> Yesterday the Secretary's [Hamilton's] report on the subject of a national bank was handed to us, and I can readily find that a bank will be the consequence. Considered as an aristocratic engine, I have no great predilection for banks. They may be considered, in some measure, as operating like a tax in favor of the rich, against the poor, tending to the accumulating in a few hands; and under this view may be regarded as opposed to republicanism. And yet stock, wealth, money, or property of any kind whatever accumulated, has a similar effect. The power of incorporating may be inquired into. But the old Congress enjoyed it. . . . The great point is, if possible, to prevent the making of it a machine for the mischievous purposes of bad ministers; and this must depend more on the vigilance of future legislators than on either the virtue or foresight of the present ones.

Maclay's chief concern about the bank was the fact that it could be employed to the "mischievous purposes of bad ministers." That Hamilton proposed his bank as a political as well as economic instrument was never far removed from his enemies' thinking. Both Hamilton and Morris, as is shown by their correspondence, were concerned with the use the government might make of such a bank. Had not Hamilton himself stated boldly in the very report that embodied the outline of the bank: "It is to be considered that such a bank is not a mere matter of private property, but a political machine of the greatest importance to the state." Maclay, Madison, Jefferson, John Taylor and other agrarian Republicans read the passage and shuddered. It was evident that the secretary had in mind the strengthening of the central government in general and of the Federalist central government in particular.

To Hamilton's enemies the fatal flaw in the bank scheme was the fact that it and its money would be open to manipulation by the party in power — "infallibly subservient to government views" was Smollett's quotation from the enemies of the Bank of England.

[26] *The Journal of William Maclay* (New York, 1927), 345.

By using the bank's financial power a party might remain in office long after it had ceased to represent the will of the people. In such channels ran Republican thoughts.

Moreover, to the eighteenth-century mind banks were inextricably tied in with speculation. The two most obvious precedents that could be cited in this connection were the ones that Hamilton also cited — the Bank of England and the Bank of North America. Although the Bank of England had managed to remain fairly aloof from the South Sea scheme it had loaned large sums to some of that ill-starred company's promoters. Furthermore, the bank's large reserve of fluid capital was an irresistible lure for the South Sea directors and the bank, its best efforts notwithstanding, found itself embroiled in the general catastrophe that followed the bursting of the Bubble in 1720. To prevent public repudiation of the state, the bank was forced to assume a large portion of the South Sea Company's stock after 1720.[27]

The resounding explosion of the South Sea Bubble and the crash of John Law's adventures on the Mississippi in 1720 still rang in the ears of late eighteenth-century men. Stockjobbing was no new thing to them — Smollett mentions it in his discussion of the Bank of England — but after 1720 stockjobbers were held in contempt and fear. Doctor Johnson defined them as "low wretches who get money by buying and selling shares in the funds" and so they remained. The fear of speculation which a large bank might be tempted to enter and thereby augment was no small thing as late as 1789.

The Bank of North America had also come under considerable attack from farmers and small businessmen for questionable loans that it had made for speculation in lands and stock. The use of its funds for land speculation afforded ample evidence for the bank's opponents of what might happen if a large supply of paper currency were made available for investment.

The debate in the Senate dragged on, calling forth few outbursts of enthusiasm or interest. "The Bank bill was the order of the day," Maclay recorded on January 10. "I did not embark deeply but was up two or three times. The debates were conducted in rather dusultory manner."[28] The debate included discussion of the fine points of the bill and of the pressures being brought to bear in favor of its passage, although few senators seemed sure in their fiscal knowledge. "Everyone affected to understand the subject, and undervalue the capacities of those who differed from himself. If my mental fac-

[27] Clapham, *The Bank of England*, 81–89.
[28] *Journal*, 357.

ulties and organs of hearing do not deceive me, I really never heard such conclusions attempted to be drawn." [29]

Maclay's opposition to the bill, prompted by his agrarian Republican tendencies, deepened as the debate drew out the opinions of his colleagues. He concluded that few of his fellow senators would care to have their remarks on the subject printed in the morning's newspapers and his desire for Senate debates open to the public was greatly increased.[30]

The outspoken Maclay continued to press for a broadening of public power and control of the bank but received scant support. Hamilton's prestige and the pressures from the money interests were too strong. Maclay summed up the attitude of many of his Republican colleagues when he exploded: "If there is treason in the wish I retract it, but would to God that this same General Washington were in heaven! We would not then have him brought forward as a constant cover to every unconstitutional and irrepublican act." [31] If Maclay had any doubts about where the money interests stood on the bank bill they evaporated after he engaged two prominent merchants in conversation on the subject during the course of a dinner at General Dickinson's home.[32] Maclay's explosions – in public and in private – were of no avail. Opposition to the bill dwindled and vanished as the bank bill passed the Senate without a roll call. Hamilton had won the first round.

Value vs. Constitutionality

If the bill passed the Senate easily no such cordial reception awaited it in the House. The House debate developed slowly because of the reluctance of many members to take a stand on the bill and it went through the customary three readings before debate began in earnest on the final reading. The debate then centered on the two major issues involved in the plan: its economic value, in which its opponents attacked it as an instrument for the enrichment of a few; and its political implications, its constitutionality and the power of Congress to grant corporate charters.

The House debate was opened by Jackson of Georgia, a strong and almost automatic opponent of any Hamiltonian measure. He denied that the precedent cited so copiously, the Bank of North America, had helped his constitutents in Georgia in any way. He was

[29] *Ibid.*, 359.
[30] *Ibid.*, 360.
[31] *Ibid.*, 341.
[32] *Ibid.*, 358.

certain that no Georgian had ever seen one of that bank's notes and insisted that its operations had been carried on for the profit of a small group of financiers and speculators. They alone, not the country, had benefited from that bank's operations. He insisted that the proposed national bank was "calculated to benefit a small part of the United States, the mercantile class only; the farmers, the yeomanry will derive no advantages from it." [33]

He further insisted that citing English historical precedent was of no avail since American history had not followed the course of English history. It was absurd to attribute England's greatness to the Bank of England. Like Maclay, he was disturbed at the vast power of the government to borrow from the bank and felt that the government would constantly be in debt to the bank and would therefore be identified with the bank's interests. He could conceive of no worse government than one dominated by bankers. He then pronounced the bank unconstitutional and quoted from the *Federalist* – written in part by Hamilton – to prove his point.[34]

The opening wedge having been driven, James Madison rose to deliver his opinions on the bill. Madison's reputation as a scholar and close student of past politics meant that he would receive a respectful hearing from his colleagues and that his arguments would be grounded in historical precedent. Madison realized at once that here was an issue that could easily break up the government into quarreling factions and he was anxious to avoid such an occurrence. His arguments throughout the debate were conducted on a high plane and were generally concerned with the economic and constitutional theory involved in specific points of the bill. He opened his argument with a calm discussion of the advantages and disadvantages of banks. He listed the advantages first:

1. Capital would be made available for investment.
2. The bank would aid merchants in prompt payment of the customs and other taxes by making short term loans available for such purposes.
3. The bank would be able to loan money to the government.
4. It would diminish usury.
5. It would prevent the hoarding of precious metals by storing them in its vaults and issuing paper instead.
6. It would facilitate personal remittances from inaccessible places where notes happened to circulate.

He thought that the effects of such a bank in raising the value of stocks had been overrated. It would raise the value of the bank

[33] *Annals of the Congress of the United States*, First Congress, II, 1,941.
[34] *Ibid.*

stock itself but not of stock in general. He then listed the disadvantages of such a bank:

1. Precious metals would be taken out of circulation.
2. The public would be placed at the mercy of possible runs on the bank.
3. The bank would concentrate wealth in a single area.
4. The plan favored a small group of investors who would be able to purchase stock before people far from the capitol could subscribe.

On the whole it appeared to Madison that the power of Congress to grant charters of incorporation was condemned by the silence of the Constitution on the subject.[35] He could not reconcile the power of Congress to grant charters with any clause of the Constitution: not from the power to borrow, since this would mean that Congress could create the means of borrowing as well; not from the power to collect taxes; not from the "necessary and proper" clause. The proposed bank might be convenient to the government but it could not be called necessary, Madison argued.

Since a system of banks rather than one central bank favored more people Madison was inclined toward this idea.[36] The situation in England was different because the interest on the debt was due all at one place and where "the genius of the monarchy favored the concentration of wealth and influence at the metropolis." He further pointed out that the original Bank of England charter had been purchased by a loan to the government at rates that were favorable to the government; such was not the case in the present instance.[37]

He went on to explain that he had voted against chartering the Bank of North America but that it had been a child of necessity. When the war was over it had ceased to function for the Confederation. Congress had not seen fit to pass laws against those persons who had counterfeited that bank's notes because it did not deem that it had the power to do so. Therefore, the Bank of North America had never been a truly national bank. In any event, he doubted that precedent drawn from wartime could be applied to peacetime problems without great danger.[38]

The problem of constitutionality was tied in closely with the problem of states' rights, for Madison and his supporters realized only too well that the growth of the power of the national government would be accompanied by a corresponding decline in the

[35] *Ibid.*, 1,944–45; Gaillard Hunt (ed.), *The Writings of James Madison* (New York, 1906), VI, 19–42.

[36] *Annals*, II, 1,945.

[37] *Ibid.*

[38] *Ibid.*, 2,011.

powers of the states. He felt that a national bank would interfere with any plans the states might have for establishing banks and that such a bank would be a precedent from which the government might draw the power to charter private corporations like the East India Company.[39]

In arguing that Congress could not grant corporate charters because the power was not enumerated in the Constitution, Madison was arguing against his own past record. The doctrine of implied powers had originated in his report to Congress of 1781. In the Federal Convention of 1787 he had co-sponsored a resolution granting Congress the power to incorporate bodies where the public interest dictated it but the resolution had been tabled by the convention.[40] In view of his past logic only his distrust of the money power could explain his stand on the bank bill.

Fisher Ames, one of Hamilton's ablest supporters in the House, rose to refute Madison's arguments. He chose to argue the question of constitutionality rather than any moral or economic issues involved. He began by repeating what Hamilton had said in his original report: that the bank would improve commerce and industry, would insure the government's credit, would aid in collecting taxes. He too turned to history for precedent. Impatient with Madison's discussion of economic theory and anxious for action on the bill, Ames demanded concrete discussion. "But why should we lose time to examine the theory when it is within our power to resort to experience? After being tried by that test the world has agreed in pronouncing the institution [of banks] excellent."[41] Other countries had successfully weathered economic crises by instituting banks, why shouldn't the United States?

On the problem of constitutionality, Ames saw no issue at stake; the bill was plainly constitutional. "If Congress cannot make laws conformable to the powers plainly implied, though not expressed in the frame of government, it is rather late in the day to adopt it as a principle of conduct. A great part of our two years' labor is lost, and worse than lost to the public, for we have scarcely made a law in which we have not exercised our discretion with regard to the true intent of the Constitution."[42] Ames saw no purpose in the power

[39] *Ibid.*, 1,946–48.

[40] Max Farrand (ed.), *Records of the Federal Convention of 1787* (New Haven, 1911), II, 615; Irving Brant, *James Madison: Father of the Constitution 1787–1800* (New York, 1950), 149–50. On the doctrine of implied powers compare the Federalist 23, written by Hamilton, to the Federalist 44, written by Madison.

[41] *Annals*, II, 1,953.

[42] *Ibid.*, 1,954.

of Congress to borrow if the agency of borrowing was not available and if the power to establish such an agency was not implied. He concluded with phrases that Hamilton was to echo in his defense of the constitutionality of the bank. "Congress may do what is necessary to the end for which the Constitution was adopted provided it is not repugnant to the natural rights of man or to those which they have expressly reserved to themselves or to the powers which are assigned to the states." [43]

However much they might hate to admit it, the Republicans knew that Ames was right and his words sounded to some of them like a taunt. They had all indeed exercised their judgment on the true intent of the framers of the Constitution. The bank bill afforded the first opportunity for the supporters of loose construction and strict construction to draw up their lines for future battles. During the debate on the bank bill the future shape of the two great parties, Federalist and Republican, were outlined.

Stone of Maryland pointed out that the controversy had taken on a sectional nature – the East in favor of Hamilton's measures and the South and West opposed. Giles of Virginia called a spade a spade: "I have observed with regret a radical difference of opinion between gentlemen from the Eastern and Southern states, upon the great governmental questions, and have been led to conclude that the operations of that cause alone might cast ominous conjectures on the promised success of this much valued government." [44]

In a burst of rhetoric, Sedgwick of Massachusetts rallied to the defense of banks in general and the one under discussion in particular. Referring to the Bank of North America he said: "At a time when our public resources were almost annihilated, our credit prostrate, our government imbecile, and its patronage inconsiderable a bank of small capital was among the most operative causes which produced that first dawn that ultimately terminated in meridian splendor by the establishment of peace, independence, and freedom." [45]

Opposition to the bill proved in vain and it passed the House on February 8, 1791, by a vote of 39–20 and was sent to President Washington for his consideration.[46] The only Northerner who voted against the bill was Jonathan Grout of Massachusetts.

[43] *Ibid.*, 1,956.
[44] *Ibid.*, 1,989.
[45] *Ibid.*, 1,963.
[46] *Ibid.*, 2,012.

The Hamiltonian financial measures, including the national bank, concentrated the fiscal resources of the nation in industrial New England and the commercial East at the expense of the agricultural South and West. This was the basic sectional cleavage involved in the program. It can be argued legitimately, however, that the conflict over the bank transcended sectional lines and became a matter of argument among interest groups or classes; one which found the farmers of South Carolina and Massachusetts alike united against the interests of the merchants of Charleston and Boston. Farmers were generally suspicious of banks, regardless of the section of the country in which they lived. New England farmers were equally distrustful of banks although a longer tradition of mercantile contact made them less wary of merchants and commerce than their Southern counterparts and the fear of monopoly was never far removed from the thinking of either group.[47] The crucial question at stake, as had been the case in the founding of the Bank of England, and one which has persistently been overlooked by many historians, was the country against the city. Like their English counterparts a century before, the country element saw grave dangers in commercial expansion and the concomitant growth of urban power.[48]

The problem of the growth of cities which the bank would aid was one of great concern to the agrarian philosophers like Jefferson, Madison, John Taylor and William Maclay. Jefferson's own ideas on the subject of cities were well known. For him all virtue resided in the country. Agriculture was the foundation of any republic of virtue, and evil and corruption came only when cities arose to infest men's minds with wrong ideas. The vision of Monticello with its fertile acres and busy workshops must have been vivid in his mind and the thought of establishing industries was viewed by Jefferson with distaste. If workmen were needed let the workshops remain

[47] Claude Bowers, *Jefferson and Hamilton: The Struggle for Democracy in America* (New York, 1925), 76.

[48] At the time of the establishment of the Bank of the United States in 1791, only one state bank existed in the South, the Bank of Maryland, chartered in 1790. When the Bank of the United States charter expired in 1811, state banks had been established in Virginia, North Carolina and Kentucky. Branches of the Bank of the United States were eventually established in Boston, New York, Baltimore, Norfolk, Charleston, Savannah, Washington and New Orleans. Emory Q. Hawk, *Economic History of the South* (New York, 1934). For information on the operations of the Bank's branch offices see J. O. Wettereau, "Branches of the First Bank of the United States," *Journal of Economic History*, II (Dec., 1942), 66–100.

in Europe. "It is better to carry provisions and materials to the workers there, than to bring them to the provisions and materials, and with them their manners and principles. . . . The makers of great cities add just so much to the support of pure government as sores do to the strength of the human body." [49]

Madison could agree with his compatriot from Virginia. "The life of the husbandman is pre-eminently suited to the comfort and happiness of the individual," he wrote in the *National Gazette*. Attributing both health and common sense to rural living he went on to assert that "The extremes of both want and waste have other abode. 'Tis not the country that peoples the Bridewells or the Bedlams. These mansions of wretchedness are tenanted from the distress and vice of overgrown cities." [50]

In after years even John Adams could nod in agreement with so strange a bedfellow as John Taylor of Carolina that "banks have done more injury to the religion, morality, tranquillity, prosperity and even wealth of the nation, than they can have done or ever will do good. They are like party spirit, the delusion of the many for the interests of a few." [51] Trapped in the Vice-presidency, however, Adams had little opportunity to discuss the bank bill and nothing to do with its final disposition.

It is important to remember that the eighteenth century conceived an industrial society as one based on poverty. Wealth and capital were limited and so labor must be exploited if the factory owner was to show a profit. The city dweller's misery was thought to be concomitant with the growth of industry. Ricardo's iron law of wages was a rather late statement of a theory that had been discussed for many years. Nothing could have been more repugnant to the agrarians than a society based on the misery, poverty, and

[49] Thomas Jefferson, "Notes on the State of Virginia," reprinted in Saul K. Padover (ed.), *The Complete Jefferson* (New York, 1843), 679. Jefferson also believed that yellow fever and other diseases engendered and spread by the inadequate sanitation systems of the cities of his day would help insure the eventual triumph of rural America. See his letter to Benjamin Rush, Sept. 23, 1800, *Works of Thomas Jefferson* (Ford ed.), VII, 458. Late in life he still prided himself on his opposition to the bank bill but lamented that, like Cassandra, he had been a prophet without honor. He found himself responsible for twenty thousand dollars worth of notes as a result of having too much faith in a friend and told one correspondent that he would have to dispose of much of his land to meet the obligation. Yet, the excesses of the banks had not "cured our country of this mania." See his letter to Thomas Leiper, May 31, 1823, *ibid.*, X, 253.

[50] James Madison, "Republican Distribution of Citizens," *National Gazette*, March 5, 1792; reprinted in *Works* (Hunt ed.), VI, 97–98.

[51] John Adams to John Taylor of Carolina, March 12, 1819, Charles Francis Adams (ed.), *The Works of John Adams* (Boston, 1856), X, 375.

economic exploitation of city workers for the maintenance of an industrial society. Furthermore, city mobs were easily manipulated and their political importance could not be overlooked. Thus the development of commerce and industry and the inevitable rise of cities entailed in such a program formed the focus of agrarian resistance to the bank. The bank was but one facet of the larger issues of federal versus state government, of city versus country.

Triumph of Federalism

Shortly after receiving the bill, Washington dispatched a note to Hamilton asking how long he was allowed in which to consider the bill. Hamilton answered that the President had ten days, exclusive of Sundays, holidays, and the day on which it was delivered.[52] Maclay's fear that Washington was in Hamilton's pocket is not borne out by the evidence. The fact that Washington remained uncertain about the bill while he held it and that he held it until the very last moment before signing are proof of his desire to gather every possible opinion on the subject before committing himself.

Washington gathered the opinions of the men around him before signing the bill, and one of the first men to whom he turned was James Madison. Washington summoned Madison to Morris House, then serving as the executive mansion, and listened to the quiet Virginian's opinions on the bank bill. He asked Madison to write out his own objections to the measure and Madison assumed that this paper would form the nucleus of a veto message if Washington decided to return the bill to Congress. Madison himself recorded:[53]

> He [Washington] held several free conversations with me on the subject, in which he listened favorably, as I thought, to my view of it, but certainly without committing himself in any manner. Not long before the expiration of the ten days allowed for his decision, he desired me to reduce into form the objections to the bill, that he might be prepared in case he should return it without his signature.

While holding the bill and gathering the opinions of the men around him, Washington was viciously attacked by speculators. In Boston, Fisher Ames gave currency to the rumor that the President was afraid that Philadelphia would become the financial and political capitol of the country if the bill became law.[54] Many similar

[52] J. C. Fitzpatrick (ed.), *The Writings of George Washington* (Washington, 1939), XXXI, 224.

[53] Brant, *James Madison*, 330. Cf. James Madison, "Detached Memoranda," *William and Mary Quarterly*, III (Oct., 1946), 540–46.

[54] Fisher Ames to Richards Minot; cited in Bowers, *Jefferson and Hamilton*, 78.

rumors were set afloat. Actually, the delay was caused in part because Hamilton's defense of the bill did not reach Washington until two days after Madison drafted the veto message.[55]

One by one the cabinet members returned their briefs to Washington. Jefferson maintained his opposition to the bill on constitutional grounds, and his arguments were interchangeable with Madison's. Since the power to grant charters of incorporation was not explicitly stated in the Constitution, the power did not exist. It could not be deduced from any other clause. Jefferson's chief concern was the precedent that such an action would establish. "To take a single step beyond the boundaries thus especially drawn around the powers of Congress," he wrote, "is to take possession of a boundless field of power no longer susceptible of any definition." He refused to believe that the "necessary and proper" clause could be stretched to cover incorporation. "A bank, therefore, is not *necessary* and consequently not authorized by the phrase." [56]

Attorney General Edmund Randolph also held that the bank was unconstitutional.

It now remained for Hamilton to convince Washington of the bill's constitutionality, for if the President vetoed it there was no chance of its re-passage. Washington took the liberty of sending Hamilton the briefs of the other cabinet members and requested a similar paper from the Secretary of the Treasury, "that I may be fully possessed of the arguments *for* and *against* the measure, before I express any opinion of my own. . . ." He did, however, require that Hamilton return the papers at once and that he make no copies of them.[57]

Hamilton studied the opinions of his fellow cabinet members and then embarked on an extensive refutation of their arguments. The question of implied powers engrossed him more than any other. Passing quickly over the economic benefits to be derived from the bank he wrote a striking passage on the implied power of incorporation: [58]

> Now it appears to the Secretary of the Treasury that this *general principle* is *inherent* in the very *definition* of government, and *essential* to every step of the progress to be made by that of the United States, namely: That every power vested in a government is in its nature *sovereign*, and includes, by *force* of the

[55] Brant, *James Madison*, 331.

[56] P. L. Ford (ed.), *The Works of Thomas Jefferson* (New York, 1895), V, 284–89.

[57] Washington to Hamilton, Feb. 16, 1791, *Writings of George Washington*, XXXI, 216.

[58] *Works*, III, 446. The italics are Hamilton's.

term, a right to employ all the *means* requisite and fairly applicable to the attainment of the *ends* of such power, and which are not precluded by restrictions and exceptions specified in the Constitution, or not immoral, or not contrary to the *essential ends* of political society.

Here was doctrine that the agrarians could never accept! Hamilton's logic reversed that of the Republicans. While they argued that no power was available to Congress unless specified in the Constitution, he argued that no power was not available to Congress unless so specified in the Constitution.

Washington, still not fully convinced of the bill's soundness, nevertheless signed it on the grounds that where there was such a dispute he would lend his support to the cabinet officer in whose department the measure under discussion fell.[59]

The bank was established almost exactly as Hamilton had designed it. The stock was set at ten million dollars, one-fifth of which was to be granted the government. It was to be the depository of government funds but could not lend more than one hundred thousand dollars to the Treasury without the consent of Congress. The Secretary of the Treasury was entitled to inspect the bank's records but not those of private investors, whose accounts were to be kept secret at all times. Branch offices might be established as the bank's directors saw fit. The notes issued by the bank were legal tender. One of the arguments against the original bill was its lack of favor toward holders of 3 per cent national debt certificates. The bill was subsequently amended to provide that either 3 or 6 per cent certificates would be accepted in payment for stock.[60]

As finally established the bank bore a striking resemblance to the Bank of England. Both required a one-fourth down payment in gold or silver for stock; both were forbidden to deal in lands or goods except those pawned with them; both had limited charters. There were also limitations on the size of loans that could be made, restrictions on the activities of the bank's officers and the stipulation that debts could not exceed resources. Both had been established primarily as aids to the state.

[59] E. C. Mason, *The Veto Power* (Boston, 1890), 25.

[60] *United States Statutes at Large*, I, 191 ff. Other requirements included forbidding any person subscribing for more than 30 shares in one day between July 1 and Oct. 1, 1791; forfeiture of stock if the subscriber was unable to meet one of his payments; officers who permitted loans in excess of $100,000 were personally liable for the full amount; the bank could not purchase public debt certificates but it could sell them; stock subscription opened on the first Monday in July, 1791, whereas Hamilton had requested that sale begin in April, 1791.

Subscription to the bank's stock was rapid, more rapid than even the bank's partisans had dreamed. The amount of stock placed on sale in Philadelphia was taken in an hour and the pace was equally fast elsewhere.[61] As Hamilton had hoped and as the agrarians had feared, city-dwelling merchants accounted for most of the stock purchased. Hamilton made every effort to distribute the stock among the principal cities of the North (Boston, New York, Philadelphia, Charleston) but his manipulation of inter-city remittances was not entirely responsible for this pattern. More fluid capital was available in the cities for the purchase of stock, a fact that had never been overlooked by the opposition to the bank. Subscribers included Harvard College, the State of New York, the Bank of Massachusetts, and not a few of the speculators who had dealt in Continental scrip and Western lands.[62]

Hamilton had made it clear in his original report that although the government was to be allowed a sizable share of the bank's stock, the institution was to be and remain in private hands. This philosophy of free enterprise and individualism no doubt appealed strongly to the Federalist merchants who bought the bank's stock. The favors to be received from the government were in turn a guarantee of solvency and stability that made keen businessmen anxious to subscribe to the stock.[63]

There was no serious departure, either in detail or in spirit, from the bank that Hamilton recommended and the one that was actually established. Out of the controversy that surrounded the establishment of the bank came some of the best statements of philosophy from the emerging Federalist and Republican parties. The lines had indeed been drawn for future struggle between the two and those lines emerged from an issue that involved economic, political, and moral issues. In the last analysis the whole struggle surrounding the bank can perhaps best be seen as a phase of the continuing struggle between those who desired an agrarian America presided over by a weak central government and those who desired an industrial America presided over by a powerful central government.

[61] John Spencer Bassett, *The Federalist System 1789–1800* (New York, 1900), 39–40.

[62] J. O. Wettereau, "New Light on the First Bank of the United States," *Pennsylvania Magazine of History and Biography*, XLI (July, 1937), 263–85.

[63] Bassett, *The Federalist System*, 39–40. Coincidentally, the subscription to the Bank of England's stock had been equally rapid, the whole being taken in twelve days. Clapham, *The Bank of England*, 19.

BOOK REVIEWS

The Resurgent Years: History of Standard Oil Company (New Jersey), 1911–1927 (Vol. II). By George S. Gibb and Evelyn H. Knowlton. New York, Harper & Brothers, 1956. Pp. xxix + 754. $7.50.

This book offers an eager audience the second installment of the history of the Standard Oil Company of New Jersey, which has been in preparation since 1947. It has been prepared under the same ground rules as its distinguished predecessor, *Pioneering in Big Business, 1882–1911:* complete freedom of access to all sources of information within the company and the right of the authors to publish their findings free from restraint. If the book lacks the dramatic setting the long years of controversy over the growth of Standard Oil gave to the first volume, in other ways it is more interesting because, being nearer to the present, many of the problems with which it deals are more closely related to the current business scene.

Resurgent Years covers a shorter period than either its predecessor or the prospective third and final volumes of the series. This intensive treatment of sixteen years following the dissolution decree of 1911 is particularly fitting because of the critical nature of the era. Although Jersey had 43% of the net value of the former Standard family at the end of 1911 and was far larger than any of the 33 newly independent companies, it had lost the dynamic balance of the old organization. It was a lop-sided company, long in refining capacity, but short, even dangerously short, in the other major functions of the oil industry, producing, transportation, and marketing. The story in this volume is of Jersey's successful attempt to reintegrate and to acquire a new balance through its operations at home and abroad, while holding to its position as the largest and most international of the great American oil companies.

The book is clearly and tightly organized into two unequal parts, with the end of World War I being the dividing point. In the earlier period, the fact of dismemberment in all its aspects, including the political and social setting, conditioned Jersey's outlook and actions. For most of this period, those who had controlled all the Standard companies prior to dissolution were still calling the tune for the former parent. By the time of World War I, new men were coming to the top positions in management, men who had been schooled mainly in the pre-dissolution period, but who were still young, eager, aggressive, in process of maturation, and who transferred these characteristics in abundant measure to the Jersey company. Chief among the leaders in a new day was, of course, Walter Teagle, but there were also many others like E. J. Sadler, E. M. Clark, and still later, Frank Howard. The vantage point from which the story is told is that of high-level administration; in no other way could the vast body of data be handled meaningfully. The chapters of the book are, in general, functional in character, but there are also introductory chapters at the beginning of each of the two major parts and a valuable chapter at the end of the book assessing the whole time span, 1911 through 1927.

The authors generally have done an excellent job in discussing the ventures, great and small, responsible for building a new and larger company from the 1911 base. They have correctly chosen to emphasize Jersey's crucially important struggle for production, at home and abroad, which accounts for almost two-fifths of their book. It is a striking story of achievement. Jersey increased its share of the world's crude output from little more than 1% in 1911 to about

5½% in 1927. By the latter year it was deep in the Mid-Continent and Gulf fields; abroad, its sources of oil included Colombia, Peru, and Mexico in Latin America, Rumania in Europe, Iraq in the Middle East, and the Netherlands East Indies, to say nothing of several minor sources of supply, including Venezuela and Canada. Among the more fascinating chapters are those dealing with Jersey's "international relations," both with governments and with other great oil companies, including Royal Dutch Shell. The authors also deal luminously with developments in the other phases of oil industry activity: the building of a large and efficient tanker fleet and of new pipelines, particularly in the Mid-Continent area; the impact of the enormously increased demand for gasoline and fuel oil on the refining function, the incentive to research and experiment, and the patent battles of the 1920's; and the struggle for a better position in marketing, at home and abroad.

Readers of *Resurgent Years* cannot fail to note the larger setting in which the Jersey executives carried on their profit-making in comparison with the past. Problems of labor relations, public relations, government controls, and the threat of nationalization of properties in several foreign lands were beginning to compete for their attention with an urgency not characteristic of earlier periods. The authors always manage to convey a very clear impression of the attitudes and actions of management in these areas, which are especially enlightening in view of the subsequent patterns of development in American industry as well as in the company. Readers also will note how Jersey turned more and more to applied research as the intensity of competition increased, and to improved aids for management in reaching decisions, especially in statistics and accounting.

The Gibb and Knowlton volume ends in 1927 because in that year the sheer size of the company (4 times the assets of 1912) required a major change in administrative organization. In 1927 the Jersey company established three new subsidiaries to take over its former operational activities. From this date forward the parent company was concerned solely with the responsibilities of planning, supervision, and co-ordination. Only by freeing several top executives from involvement in day-to-day operations did it seem possible to permit the effective consideration of matters of broad policy. In this step, Jersey preceded other great oil companies who in time would face the same problem, as they, too, became giants.

The quality of presentation is among the book's substantial merits. While the authors have never sacrificed precision of expression for a bright phrase, their language frequently sparkles with apt and compelling figures. The book can be read once, and pleasurably, by the reader seeking a general understanding of Jersey's growth, or it can be studied at length. There are numerous tables and charts dealing with other oil companies, or with industrial companies in other fields. The footnotes testify to the diligence of the authors and to the magnitude of their task.

Resurgent Years is another distinguished volume in the growing literature that cleaves between the old-time product of the muckraker with its partial truths and the "vanity" books that business firms have at times unwisely published. It is part of a worthy endeavor to pull American business out of the half-light and make it more fully known. And this book is particularly rewarding because of Jersey's long-time position in the forefront of American industry.

Gibb and Knowlton and the Business History Foundation can jointly feel proud of their achievement.

GERALD T. WHITE

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The Kress Library of Business and Economics. Catalogue Supplement Covering Material Published Through 1776 with Data upon Cognate Items in other Harvard Libraries (Baker Library, Harvard Graduate School of Business Administration, Soldiers Field, Boston, Massachusetts). 1956. Pp. vi + 175. $4.00.

This catalogue is supplementary to the one published in 1940. It is an extremely well-produced example of lucid presentation — handsomely printed with a comprehensive and valuable index of authors and titles, and a commendably short list of errata relating to the 1940 volume.

From the first entry (a 1474 publication by Saint Bernard of Siena on contracts and usury) to the last (a history of English trade, industry, colonies and shipping, by Friedrich Wilhelm von Taube) the catalogue well illustrates that eclecticism of the Kress collection which makes it at once fascinating for the antiquarian and invaluable for the business or economic historian concerned with an earlier age. Naturally, much material stems from, or is directed towards, the relationship between government and economic activity. But at a time when no one questioned the validity of their relationship, such a weighting is perfectly representative. Examples abound of the topics which interested the men of any generation — and even a brief scanning of titles highlights those changes of emphasis which were not so much passing fashions in intellectual inquiry as the variations which necessarily will arise in long-term discussion and policies dealing with topics which merchants, statesmen and thinkers imagined to be important to their generation. In the sixteenth and seventeenth centuries we see the need for mathematical literacy, a growing interest in discovery and the New World, the attempts at universal government regulation — and its gradual breakdown in matters of trade. By the late seventeenth century there are books on scientific invention useful in industry, on the new Political Arithmetic, on insurance. Two generations later a road-system, agriculture, land-utilization and manufacturing are topics obviously of some moment for men living on the eve of an Industrial Revolution.

The Kress Library again demonstrates itself to be among the best economic collections in the world. From it, detailed history can be written; it should not be overlooked as a mirror in which to see how the development of the economy conditions the lines of thought, and how the latter, in their turn, can re-direct the former.

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Chessie's Road. By Charles W. Turner. Richmond, Va., Garrett & Massie, Inc., 1956. Pp. xi + 286. $4.90.

"Chessie" is a cat, featured since 1934 in the advertisements of the Chesapeake and Ohio Railway Company. Now an $800,000,000 corporation, the

company began modestly in 1837 as the Louisa Railroad, a short line promoted by farmers of Louisa County, Virginia, to haul their wheat and tobacco east to Richmond.

From Hanover Junction, above Richmond on the Richmond, Fredericksburg, and Potomac, the Louisa Railroad poked its terminus westward by stages. There seemed to be no great difficulty in raising money locally, but the state subscribed two-fifths and then three-fifths of the capital stock. The road paused briefly by the 22-mile post at Frederick Hall, which has the additional distinction of being the birthplace of Charles W. Turner, the author. Then it went on westward, to Gordonsville, Charlottesville, Staunton, and Jackson's River, in the Valley of Virginia, and in the other direction built its own line into Richmond. After becoming the Virginia Central by a change of name in 1850, it stopped building for a decade to prepare for the great leap across the ridges and plateaus to the Ohio River.

Further progress was temporarily blocked by the Civil War. The company suffered heavily from the war, in which its line was militarily important and lay in the area of heavy combat. It had operating deficits in 1866 and 1867, but, anticipating a brighter future, changed its name in the latter year to Chesapeake and Ohio. In 1868 the earnings improved, and after that they became steadily better.

Projection of the line westward was supported with enthusiasm in 1867 and 1868 by the states of Virginia and West Virginia, counties along the route, and numerous individuals, all of whom contributed to the extent of $4,000,000, but the selling of bonds ran afoul of difficulties in 1869. At this juncture Collis P. Huntington sought to make the line a part of his envisioned coast-to-coast railroad route. The stockholders of the C. & O. consented, and Huntington and his associates took control. Fisk and Hatch of New York sold $15,000,000 of C. & O. bonds, and the company's credit stood high. The last spike of the extension was driven in 1873, and the 419-mile line was then opened from Richmond to Huntington, on the Ohio, but Fisk and Hatch failed in December, 1873, and the C. & O. spent the years 1875–78 in the hands of a receiver. Huntington reorganized it in 1878 and began a new decade of rapid expansion. A line from Richmond to Newport News, a deep-water port on the Chesapeake, was completed in 1882. Expansion into Kentucky came principally through the absorption of existing lines. The C. & O. entered Cincinnati in 1888 and Louisville (by trackage rights) in the same year.

After a second receivership in 1888, the company was reorganized by J. P. Morgan and entered a period of profitable operation. The C. & O. has always been a profit-maker, even in the days of its two receiverships, which Turner blames on too rapid expansion, but from the Civil War to 1900 it was not a dividend-payer, its profits being needed for improvements and betterments. Its main traffic gradually became coal, to carry which, competitively, required heavy equipment, strong road-beds, and low grades, and the C. & O. invested its money in these things. Its average freight rates have been, from the early days, unusually low, averaging in 1899–1900, the lowest year, 2.02 mills per ton mile on coal and 4.56 mills on merchandise.

From 1900 to 1909 the C. & O. was under the control of competitors, the New York Central and the Pennsylvania, who eventually sold out in fear of the antitrust law. In 1910 the C. & O. invaded Ohio and got control of the

Hocking Valley and soon was putting coal into Toledo. The same year it acquired at a foreclosure sale the Chicago, Cincinnati, and Louisville, and began to run trains into Chicago.

In 1922 O. P. and M. J. Van Sweringen of Cleveland bought control of the C. & O. They soon joined it to the Pere Marquette in Michigan and Ontario, but their efforts to consolidate the expanded system with the Nickel Plate and the Erie were blocked by the Interstate Commerce Commission. They went bankrupt in 1929, but efforts at consolidation continued into the thirties.

Robert R. Young in 1937 entered the directorate and in 1942 obtained control. The company prospered during the 1940's, while Young engaged in various financial maneuvers. In 1947 the C. & O., having acquired 400,000 shares of New York Central stock, became the largest N. Y. C. stockholder, but it was denied representation on the board of directors by the Interstate Commerce Commission. Young wanted to merge the N. Y. C., the C. & O., and the Virginian Railway, but the I. C. C. would not permit. In 1954 the Young interests sold out to Cyrus Eaton of Cleveland.

This short volume is, of course, only a partial history, but it shows clearly the phases of growth of the Chesapeake and Ohio and some of the controlling forces at each stage of its career. The author, a Virginian, seems to assume that the readers are Virginians too, when he refers familiarly to such places as Goshen, Cowpasture Bridge, Sugar Creek Junction, Bumpass Station, and Beaverdam, without benefit of maps. He solves the problem of the history of consolidated units by simply ignoring them until they become a part of the C. & O. This practice gives unity but not comprehensiveness to his book. The Pere Marquette, for instance, a very important part of the system, lies invisible beyond the horizon. Huntington and the Van Sweringens appear as rather shadowy characters, but we get better acquainted with Robert R. Young. The chronicle of changing directors and operating personnel perhaps adds to the joy of their surviving relatives, but it tends to clutter the book. Professor Turner's work has been careful, and his methods have been scholarly. He has had the use of records in the C. & O. archives, a fact which helps to give fresh originality to his book. He has some good pictures, too.

This volume is hardly business history in the Gras and Larson sense, for Turner does not see problems from the management's point of view, and it is more of a chronicle than an evaluation. If we examine the book for what it is, however, rather than what it is not, we find a careful and scholarly chronicle of Chessie's Road, viewed from the Virginia end.

James F. Doster

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* * *

The McCormick Reaper Legend: The True Story of a Great Invention. By Norbert Lyons. New York, Exposition Press, 1955. Pp. 217. $4.00.

The purpose of this book is to refute, beyond all doubt, the thesis of William T. Hutchinson, and many text book writers, that Cyrus Hall McCormick invented the McCormick reaper. This review is strictly that, and in no way attempts to evaluate the evidence, pro and con, as presented by Hutchinson and by Lyons. To this reviewer, the argument is weakened by its redundancy, which may be excused as the author's effort to emphasize his point of view. He sets out to prove that Robert, not Cyrus, was the inventor and the

work may not be considered objective, scientific, or impartial. In the absence of direct written evidence, Lyons had to pursue a more indirect course.

Depositions were taken by Lyons from members of the McCormick family, a generation or more removed from Cyrus, and from former employees of the Walnut Grove plant. An obituary that appeared in 1873 is used to substantiate the fact that John W. McCown, and not Cyrus H. McCormick, invented the reverse cycle which contributed greatly to the success of the McCormick reaper.

One of the many proofs given to discredit Cyrus of being an inventor of anything were the terms of his father's last will and testament. Leander and William were bequeathed specific assets; Cyrus was repaid the principal of a loan of a little more than $150. Had the favorite son not been provided for by having been given the right to obtain the patents to the reaper he most assuredly would not have been overlooked in his father's will.

For a period of approximately thirty years after the reaper was first patented by Cyrus H. McCormick, family loyalty prevented any attempts being made publicly to discredit Cyrus' claim. It was while tests were being made in England that Cyrus' ego irritated his brother, Leander, to the breaking point and the latter sailed for America two days later.

It may truthfully be said that the reaper was the product of the development of the American agricultural economy. It was born of the necessity of getting mowed grains and hay from large farms into the barns before it rained. Not only was it the product of an urgent need, at the time of Robert's death in 1846 it had already become the manifestation of the ideas of several persons, none of whom was Cyrus.

Polly and Robert McCormick had three sons, Cyrus, Leander and William. Of these, Cyrus was the first born and the favorite, at least of his mother. So much was he the favorite, that his mother induced Robert to let Cyrus obtain the patents to a wheat cutter that Robert had developed. It was this action in 1831 that gave implication to the idea that Cyrus was the inventor. Many improvements were to follow the pattern of the 1831 machine, none of which were contributed by Cyrus. Two of the more important defects of that first machine were (1) an unsatisfactory cutting blade, and (2) the lack of a rake seat on which the operator could sit while raking the stalks of wheat to be bundled into sheaves. John McCown remedied the first-named defect by devising a two-way serrated cutting blade; and Leander McCormick discovered how to attach a raker's seat that did not require a contortionist to operate. When the reaper with these two improvements attached was patented by Cyrus, he was not required to swear that he was the inventor.

Not only were the McCormicks interested in a wheat cutter, they were interested in a plow and in a hemp break. Cyrus left Virginia for Kentucky and Ohio to sell these implements, but he was not enough of a mechanic, much less an inventor, to service them in the field. While Cyrus was attempting to demonstrate his implements, he was urged in letters from home to be sure to keep his machinery well oiled. This advice was taken by Lyons as tantamount to admission by the family that Cyrus did not even know how to operate a machine, let alone invent one.

Cyrus obtained the patents; Cyrus arranged for and took part in contests with Hussey's and others' machines; Cyrus developed an advertising campaign to sell his reaper; Cyrus let contracts for the manufacture of his reaper

in Cincinnati, in Missouri and in Brockport, New York, in addition to the main factory at Walnut Grove, Virginia. His effort in the Middle West met with such success that he willingly let Hussey have the New England market. By the late 1840's, Cyrus had established a partnership in Chicago and was turning out reapers for the Illinois trade.

What started out to be a matter of family concern only in 1831 was perpetuated by the turn of future events and by implication into one of the master hoaxes of history. In 1831 Cyrus assumed the position of inventor by taking out the first patent. When succeeding patents were obtained in 1834 and 1839, he merely continued in the position he had assumed when no one thought the patented machine would return very much money to the holder of the patent. To have admitted after his father's death in 1846 that he was not the inventor would have resulted in the forfeiture of an enviable social prestige, a sacrifice that he could hardly have been expected to make.

The evidence that is presented by Lyons points to Robert McCormick as the inventor of the original reaper. Since this machine did not prove to be practical when put to operational tests in the field, Leander McCormick, a brother of Cyrus, and John McCown, a blacksmith of Walnut Grove, made improvements which were patented by Cyrus and which may have been responsible for the acceptance of the reaper by the farmers, not only in Virginia, but of the Middle West. Cyrus promoted its sale and his business acumen is deserving of recognition by posterity.

Time alone holds the secret as to how Cyrus Hall McCormick will be remembered. In 1910, the year he was being considered for election to the Hall of Fame, Leander McCormick's son, Robert Hall McCormick, and a nephew, James Hall Shields, Jr., published a revision of a brochure that was originally published in 1885 entitled "The Memorial of Robert McCormick." There is an unpublished manuscript in the library of the State Historical Association of Wisconsin at Madison entitled "Notes on a Virginia Trip" by William J. Hanna which really is more favorable to Robert than it is to his son, Cyrus, although, presumably, it was written in refutation of the memorial by Robert McCormick and James Shields. The Dictionary of American History classifies Cyrus Hall McCormick as a business and financial leader. Text book writers are reluctant to acknowledge their errors of the past, but someone will pioneer and honor Cyrus as a business man and a promoter.

FRANK W. TUTTLE

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The Power to Go. By Merrill Denison. Garden City, N. Y., Doubleday and Co., Inc., 1956. Pp. 324. $5.00.

The subtitle of this book, "The Story of the Automotive Industry," presents a much exaggerated claim. To begin with, no one is likely to tell the story of the automotive industry in 281 pages (the rest of the book consists largely of appendices), and Mr. Denison certainly has not done so. He has taken bits and pieces of the story and strung them together with an eye to color but little else in the way of any perceptible plan of organization. Some of the bits and pieces are good, showing flashes of insight that one wishes had been more adequately developed. The chapter on "Why Detroit" is a well-reasoned analysis of the factors that made the Michigan metropolis the center of the

automotive world, and there is some good material, not readily available elsewhere, on the development of motor trucks. In addition, the concluding chapter is a comprehensive appraisal of the influence of the automobile on American life.

These bright spots, however, are offset by the book's manifest defects. There is not much evidence of serious study. The author states that he used the resources of the Automobile Manufacturers' Association. This was a wise step, as I can testify from experience, but it is a pity that he stopped there. A fifteen minute walk or a five minute trolley ride would have taken him to the Automotive History Collection of the Detroit Public Library, of whose existence he seems to be completely unaware. The staff there could at least have saved him from the blunder of referring to Hartford's automotive historian as "the late Henry Cave." Having spent a very pleasant day with Mr. Cave only last June, I can affirm positively that the adjective is in error.

In a short book which attempts to cover so much ground, it is difficult to see the reason for some of the things that have been done: the space devoted to going over the already familiar history of the steam engine; the sweeping and frequently inaccurate generalizations about the origins of American industrialism; the two separate but virtually identical discussions of the significance of the fire at the Olds Motor Works in 1901; or the 12-page glossary of automotive terms — including such items as "gunpowder" and "labor."

There are no references to sources, except for the statistical appendices and somewhat vaguely in the introduction, and the bibliography is useless. It purports to list only those works on the automobile that are "widely available and most useful and interesting." Roger Burlingame's classic brief biography of Henry Ford would seem to fit these specifications admirably, but it is omitted, and Professor Nevins will undoubtedly be surprised to discover that the second volume of his *Ford* was apparently published in 1955. If this is so, it has been one of the best kept secrets in the history of publishing.

In short, this book will appeal to people who just like to read about automobiles and are not concerned about the quality of the material. However, while it is one of a series called "Industries of America," its value as a contribution to industrial history is negligible.

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Small Business in Brass Fabricating: The Smith & Griggs Manufacturing Company of Waterbury. By Theodore F. Marburg. New York, New York University Press, 1956. Pp. 116. $5.00.

In an era of five-pound company histories, Professor Marburg's modest volume commands particular notice, and not for reasons of size alone. It penetrates the labyrinth of business records and firmly pins down some historical situations of great importance. Succinctness has its price, but the realized values are great indeed. The volume is a major contribution to the literature of serious business history.

The choice of subject was a happy one to begin with, and I suspect that this was not entirely fortuitous. First, the study involves a small business enterprise — that wilderness still largely unexplored by historians. Secondly, the unfolding story rapidly deviates from a pattern historians seem, unfortunately

and mistakenly, to believe is normal. The firm of Smith & Griggs did not mount from height to height or evolve from humble origins through inspired leadership to become a pillar of the American economy. The utterly entrancing fact is that in 1935, following a period of declining virility, Smith & Griggs quietly went out of business. Thirdly, the records of this venture were adequate to support an intensive appraisal. So short and so good a book could not have been prepared without good statistics, copious correspondence, and personal recollections of the denouement era. It scarcely requires note that the opportunity for perusing the records of a small, defunct business is a rare one indeed. Marburg has exploited this opportunity skillfully, and in doing so has utilized techniques that in themselves merit attention.

The story divides very naturally into four parts. The Smith & Griggs firm was a fabricator of brass consumer goods and components, producing both for general sale and the custom trade. The formative period was from 1865 to 1871, when Connecticut metal establishments were still feeling the effects of war stimulation. Able management, technically skilled on the one hand and market-oriented on the other, guided the firm through a period of expansion that lasted until 1907. Business in these years was guided by a policy of "serving a few customers a large supply of a limited number of items that could be produced by automatic processes." After 1908 the venture began, relatively speaking, to fall behind. There were external reasons for this, among them the significant circumstance that the machine tool trade was facilitating ease of entry into metal fabricating trades by its progress in designing special-purpose equipment for general sale. Internally, there was growing managerial ineptitude that took several forms. Contacts with the trade were neglected — a disastrous weakness in a business where customers were relatively few. Plant was allowed to deteriorate — or, at least, was not improved. Top management lost contact with the factory, and appeared increasingly diffident, or perhaps preoccupied. Comfortable family circumstances may have robbed the predominately family enterprise of initiative. The final phase was that of liquidation, under pressure of the depression years. There was no crashing failure — Smith & Griggs was simply allowed to die. No one was willing to give the necessary transfusion.

From this frighteningly typical story of small manufacturing enterprise, Marburg derives some important generalizations. He points to the fact that innovation often consists of cumulative, individually minor changes, and he seems to feel that this type of entrepreneurship is extremely significant. He states the thesis, well supported by the Smith & Griggs history, that "reinvestment may be regarded as providing tentative evidence of innovation." He points up a conclusion (more familiar to businessmen than to scholars) that effective change is a product of intimate market-factory communication. Quite justifiably and commendably, he is intrigued by the contra-secular trend of the firm's operating record, and points to the persistence of established trade relationships as a reason for ". . . a stickiness, a slowness in the extinction of the less efficient."

I am extremely reluctant to point to omissions in this study, for the simple reason that any project of such scope must deliberately sacrifice something. Necessarily, there is little feeling for the dynamics of the business — the year-to-year fluctuations of trade. By and large, this loss is not serious, and is partly made up by great skill in picking quotations that give a flavor of movement and of personality. The picture of factory operations is somewhat hazy, though

factory organization is well covered. Here again, the loss is minor, and is relieved by periodic quotations and references that are extremely revealing to anyone interested in technical evolution. My only real criticism of the volume is that interfirm and personal relationships in the tight little Connecticut manufacturing community may have received less attention than they should in explaining the rise and fall of Smith & Griggs. My criticism is relative, not absolute, for Marburg does have considerable to say on this point, and my hunch may be wrong to begin with.

The technical handling of material in this book is worth particular notice. Speaking negatively, the total absence of illustrations was not only no obstacle to lucidity, but was actually refreshing. The charts are pertinent, well-executed, and valuable. Statistical summaries are to the point — every series has obvious meaning. The use of the Source and Application of Funds as a historical device should be noted. Marburg uses it with tremendous impact, and every business historian should study Chart III and footnote 77 of Chapter III. In fact, I would like to expand this recommendation and encourage every business historian to read the entire volume with greatest care.

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